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Status Report
of the Auditor General of Canada to the House of Commons

Chapter 1
Financial Management and Control and Risk Management

Office of the Auditor General of Canada

2011



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Financial Management and Control
and Risk Management

Office of the Auditor General of Canada

The 2011 Status Report of the Auditor General of Canada comprises Matters of Special Importance, Main Points—Chapters 1 to 6, an appendix, and seven chapters. The main table of contents for the Report is found at the end of this publication.



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Chapter

1

Financial Management and Control and Risk Management

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Financial Management and Control and Risk Management

Main Points

What we examined

Financial control and risk management are central to managing any organization effectively. To the extent that they are done well, they can contribute to an organization's ability to safeguard its assets, use its resources economically and efficiently, and produce accurate and reliable financial information. Reliable information is key to developing a complete and accurate picture of financial performance.

In our April 2003 Report we observed that federal departments we had selected for audit were in the early stages of implementing integrated risk management and that much remained to be done. For example, departments needed to complete their analysis of risk, including assessing their tolerance for risk. We also noted that departments needed more guidance from the Treasury Board of Canada Secretariat on the steps involved in integrated risk management.

Our May 2006 Report noted that departments selected for that audit had made some progress in resolving financial control weaknesses and improving their financial management competencies. However, we noted that unless they also improved their financial controls, the quality of information used for many key decisions would be at risk. We also noted that most financial information used for budgeting and decision making was based on the cash method of accounting, which provided a less accurate and complete picture of a department's financial situation than the accrual method.

In this follow-up audit we examined government's progress in acting on commitments made in response to our previous concerns. Our audit included the Treasury Board of Canada Secretariat (the Secretariat) which includes the Office of the Comptroller General, and seven large federal departments, namely: Agriculture and Agri-Food Canada, Department of Finance Canada, Foreign Affairs and International Trade Canada, Human Resources and Skills Development Canada, Indian and Northern Affairs Canada, Transport Canada, and Veterans Affairs Canada.

Audit work for this chapter was substantially completed on 30 September 2010.

Why it's important

Canadians expect the government to be well managed and to be accountable for the safeguarding of public assets and the stewardship—efficient, effective, and economical use—of public funds. Effective financial controls and risk management are vital to reduce the risk that the government may not achieve these objectives.

What we found

- Overall, the Treasury Board of Canada Secretariat and departments have made satisfactory progress in acting on their previous commitments, in particular, with respect to developing policies, frameworks, and relevant guidance on internal controls, and implementing risk management measures. Departments have still not fully assessed their internal control systems to identify and address weaknesses; and, according to their action plans, this work will take years to complete. In addition, the Office of the Comptroller General (OCG) has yet to establish processes for monitoring the completion of these assessments or for assessing actions taken by departments to address significant internal control issues. There is also a long-standing issue that has not been sufficiently addressed—namely, accrual-based budgeting and appropriations.
- The Treasury Board of Canada Secretariat, through the Office of the Comptroller General, has demonstrated leadership by developing a new and strengthened financial management policy suite, clarifying roles and responsibilities, and supporting deputy heads in their role as accounting officers as set out in the *Financial Administration Act*. Most of the selected departments told us they found the Secretariat's initiatives and approach to be helpful. However, there is more work to be done to improve the Secretariat's monitoring of the implementation of these policies so that it can appropriately assess departments' performance in achieving the policy goals.
- Each of the selected departments has developed a corporate risk profile that summarizes an assessment of the department's key risks, with processes in place to update these profiles regularly. The integration of risk into planning, reporting, and decision making has improved.
- Financial human resource capacity has improved since our last report. The Office of the Comptroller General has put in place several measures to enhance capacity, including guidelines on the qualifications of chief financial officers, mandatory training courses for financial staff, promotion of professional accounting designations for mid-level financial officers and financial managers, staffing initiatives, and forums and exchanges on best practices.

Departments are working to maintain and strengthen their workforce by recruiting, training, and developing the appropriate number of financial officers and managers with the required skills, competencies, and experience. Departments are at various stages in the process of putting in place strategies to address the anticipated turnover of senior financial executives.

- The government has not completed its evaluation of accrual-based budgeting and accrual-based appropriations and has not yet decided if it intends to fully adopt either or both of these approaches. It has taken what it considers the needed action related to accrual-based budgeting. However, it is our view that these actions are not sufficient or appropriate to attain accrual-based budgeting at the departmental level. At this point no decision on whether to adopt accrual-based appropriations has been made.

The departments and the Secretariat have responded. The departments and the Secretariat agree with all of the recommendations. Their detailed responses follow the recommendations throughout the chapter.

Introduction

1.1 Each year, the government manages billions of dollars in taxpayers' money to deliver services and programs to Canadians. The Public Accounts of Canada reported that during the 2009–10 fiscal year, the Government of Canada had $219 billion in revenue and $274 billion in expenses. In addition, the government's financial position at that time included assets of $364 billion and liabilities of $883 billion.

1.2 Canadians expect the government to be well managed and to handle taxpayers' money prudently and economically. To do this, the government must exercise sound financial management and control and risk management within the requirements of the *Financial Administration Act* and regulations. It must also follow relevant Treasury Board policies, directives, and standards, and be guided by principles of value for money, accountability, transparency, and risk management. This means that systems, practices, and resources need to be in place to ensure that

- public funds are managed prudently and honestly;
- assets are safeguarded;
- resources are used effectively, efficiently, and economically to achieve government objectives;
- accountabilities for financial management are clearly established;
- financial risks are being mitigated by effective internal controls; and
- the Canadian public and parliamentarians are provided with pertinent and reliable information on the use of public funds.

Significant deficiencies in these areas of financial management and control and in risk management can have detrimental effects on the level of service that Canadians receive and the government's credibility.

1.3 To be well managed an organization must identify, assess, and respond to risks that could affect the fulfillment of its objectives. Integrated risk management involves managing risk across an organization in a coordinated and systematic manner. This assists an organization in better understanding the risks it faces—for example, financial, environmental, strategic, and operational risks. It also assists an organization in making informed decisions about how to mitigate threats that could have an impact on its ability to meet its objectives, and how to take advantage of the opportunities that uncertainty presents.

Accrual-based financial information — Information compiled using a method of accounting that records an entity's transactions and other economic events when they occur, rather than when the entity receives or pays cash or its equivalent (cash-based accounting)

Appropriations — An authority from Parliament to incur a maximum dollar amount for a specified activity during a fiscal year, with legislated consequences for exceeding the maximum established by the appropriation

1.4 Good financial management requires the provision of pertinent and reliable information for planning and allocating funds. It is our view that the use of **accrual-based financial information** for budgeting and **appropriation** of funds would allow departments to better manage and control operating and capital spending and improve transparency and accountability. It would also help legislators hold the government accountable for its stewardship (effective, efficient, and economical use) of public assets, the full costs of programs, and its ability to meet short-term and long-term financial obligations.

1.5 The capacity of financial human resources also plays a key role in determining how well the government can deliver results that meet the expectations of Canadians. In a climate of fiscal pressure, it is important for departments to continue to maintain and build a strong workforce for the future. This can be accomplished by recruiting, training, and developing the appropriate number of financial officers and managers with the required qualifications, skills, competencies, and experience.

1.6 Exhibit 1.1 summarizes key roles and responsibilities for implementing financial management and control and risk management.

Exhibit 1.1 Summary of key roles and responsibilities for implementing financial management and control and risk management

Position	Responsibilities
Deputy head	As the "accounting officer," has overall responsibility for financial management and control and risk management within a department. This includes accountability for • allocating resources to deliver departmental programs in compliance with government policies and procedures; • appointing a qualified Chief Financial Officer; • maintaining effective systems of internal controls and signing accounts in a manner that accurately reflects the financial position of the department; and • exercising any other duties prescribed by law or regulations relating to the administration of their department (in practice, accounting officers are also accountable for parliamentary appropriations received).
The Chief Financial Officer	Provides support to the deputy head as the senior departmental executive, strategic adviser, and key steward for departmental financial management.
Senior departmental managers	Are responsible for financial and risk management for all the activities falling within his or her areas of responsibility.
The Treasury Board of Canada Secretariat	• Serves as a centre of expertise to support integrated risk management and sharing of good practices. • Provides guidance and advice on risk management for departments and agencies. • Annually examines and evaluates the effectiveness of integrated risk management as well as financial management and control within government departments and agencies and reports on progress.

Exhibit 1.1 Summary of key roles and responsibilities for implementing financial management and control and risk management (continued)

Position	Responsibilities
The Office of the Comptroller General of Canada within the Secretariat	Provides government-wide functional direction and guidance to departments and agencies on financial management and control, and on stewardship of public resources and financial management information systems. This includes • interpreting financial management policies, directives, and standards for the Government of Canada; • assessing departmental financial management performance periodically; • supporting the development of sustainable financial management capacity across the government; and • monitoring compliance with policy, reporting on deficiencies, and ensuring that departments take timely corrective action.

Sources: Treasury Board Policy on Financial Management Governance, Treasury Board Policy on Internal Control, Framework for the Management of Risk, and Treasury Board Guidelines on the Expected Qualifications for Chief Financial Officers.

What we found in our 2003 and 2006 audits

1.7 This chapter follows up on selected recommendations and relevant observations, and on the government's related commitments, from our 2003 April Report of the Auditor General of Canada, Chapter 1, Integrated Risk Management, and our 2006 May Status Report of the Auditor General of Canada, Chapter 1, Managing Government: Financial Information.

1.8 In 2003, we reported that the Treasury Board of Canada Secretariat and the departments that we had selected for audit were at an early stage of implementing integrated risk management. We noted that the Secretariat needed to provide more guidance on how to integrate risk management and that departments needed to

- complete risk profiles,
- better define risk tolerances,
- periodically review profiles to ensure that risks remained relevant, and
- integrate risk information into strategic decision making.

1.9 In 2006, we followed up on long-standing issues related to financial management and controls and reported that the Office of the Comptroller General had not done enough to enhance financial management and control government-wide and to promote accrual-based budgeting and appropriations. We also reported that less than 50 percent of the selected federal organizations had made satisfactory progress in addressing previously reported weaknesses in financial controls.

Events since 2006

1.10 In December 2006, Parliament passed the *Federal Accountability Act*. Shortly thereafter, the government presented the Federal Accountability Action Plan to increase government-wide accountability, transparency, and oversight in departments and agencies. In this plan, the government committed to reviewing and streamlining financial management policies; replacing transaction-level requirements and rules with basic principles of accountability and transparency, where possible; and revoking policies and regulations that did not promote accountability and good management. To meet these objectives, the Secretariat continued its policy renewal initiative.

1.11 Amendments to the *Financial Administration Act* made by the *Federal Accountability Act*, named the deputy head of a department or an agency as the "accounting officer." These amendments clearly established the deputy head's accountability before parliamentary committees for measures taken to ensure the department's compliance with government policies and procedures. They also set out the deputy head's responsibilities for maintaining effective internal controls.

1.12 In support of the Federal Accountability Action Plan, the Secretariat reviewed the Treasury Board's management policies to clarify management's roles and responsibilities and to ensure a risk-based approach to streamlining rules and processes. This was also intended to clarify the objectives of Treasury Board policies and the results to be achieved by them and to clarify the Secretariat's oversight role in holding departments accountable for management performance, including maintaining effective internal controls. Exhibit 1.2 summarizes key financial management policies.

Focus of the audit

1.13 In this chapter, we reviewed the progress that the Secretariat and seven selected departments, listed in **About the Audit**, had made toward commitments related to selected recommendations and relevant observations from our 2003 and 2006 audits. We looked at whether they had taken satisfactory action to enhance controls for financial reporting and to improve integrated risk management. We also looked at steps that the Secretariat had taken toward implementing accrual-based budgeting and appropriations. Although our previous audits did not make specific recommendations on the capacity of financial management human resources, we considered this important aspect of financial management and control in this follow-up report. We did not assess internal controls within the selected departments or the risks identified in their Corporate

Risk Profile. Rather, we focused on whether the departments were assessing their internal controls and practices, and on their approach to risk management.

1.14 More details about the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

Exhibit 1.2 Summary of key financial management policies

Policy	Effective date, objective, and requirements
Policy on Financial Management Governance	**Effective date:** 1 April 2009 **Objective:** To strengthen public sector financial management and its leadership thereby contributing to appropriate stewardship of public resources, effective decision-making, and efficient policy and program delivery. **Requirements:** The policy specifies core financial management responsibilities pertaining to deputy heads, chief financial officers, senior departmental managers, departmental audit committees and the Comptroller General. This includes that the deputy head must appoint a Chief Financial Officer.
Policy on Internal Control	**Effective date:** 1 April 2009 Implementation was to be phased in over three years, based on risks and departmental readiness as follows: • 1 April 2009—effective for the 22 large departments that completed a readiness assessment to support control-based audits of financial statements • 1 April 2010—effective for departments and agencies that currently have audits of their financial statements • 1 April 2011—effective for all other departments and agencies **Objective:** To adequately manage risks relating to the stewardship of public resources through effective internal controls, including internal controls for financial reporting. **Requirements:** Deputy heads are responsible for • establishing, maintaining, monitoring and reviewing an effective system of internal controls to mitigate risk with respect to the effectiveness and efficiency of programs, operation and resource management, the reliability of financial reporting and compliance with legislation, regulations, policies and delegated authorities; • conducting an annual risk-based assessment of the system of internal control over financial reporting; • establishing an action plan to address significant issues found in the assessment and ensuring appropriate and timely action is taken to address issues; and • publishing a summary of the assessment results and actions taken in response. The Office of the Comptroller General within the Treasury Board of Canada Secretariat is responsible for • overseeing the effectiveness of the system of internal control; and • monitoring that appropriate and timely action is taken to address significant issues over financial management and over financial reporting.

Exhibit 1.2 Summary of key financial management policies (continued)

Policy	Effective date, objective, and requirements
Policy on Financial Resource Management, Information and Reporting	**Effective date:** 1 June 2010, except for the requirement for quarterly reporting, which becomes effective 1 April 2011 **Objective:** To ensure that the management of public funds is supported by effective planning, budgeting, and reporting, which are based on reliable information and the sound analysis of that information. **Requirements:** Deputy heads are responsible for ensuring • approval, timely allocation, and effective oversight of the departments' financial plans, budgets, and related allocation of resources with appropriate involvement of the Chief Financial Officer; • preparation of a complete set of departmental financial statements in accordance with Treasury Board standards; • preparation of quarterly reports to be made public within 60 days of the reporting period; and • implementation of measures for the department to sustain a control-based audit of its annual financial statements in whole or in part. The Treasury Board of Canada Secretariat is responsible for requesting audits of departments' financial statements in part or in whole and monitoring compliance with Policy.
Policy on Stewardship of Financial Management Systems	**Effective date:** 1 January 2010 (replaces the policy on Financial Systems and Controls dated 1996) **Objective:** To ensure that financial management systems deliver more accurate, reliable, accessible, and timely financial information. **Requirements:** Deputy heads are responsible for ensuring that • financial management systems (FMS) meet operational requirements and are aligned with government-wide strategic direction for FMS; • configurations are standardized; and, • common government-wide financial management business processes are used and common data requirements are in place. The Treasury Board of Canada Secretariat is responsible for • ensuring that sound financial management governance structures are in place for each cluster group; • supporting Treasury Board in issuing appropriate policy instruments • monitoring compliance with Policy

Sources: Treasury Board Policy on Financial Management Governance, Treasury Board Policy on Internal Control, Treasury Board Policy on Financial Resource Management, Information and Reporting, and Treasury Board Policy on Stewardship of Financial Management Systems

Observations and Recommendations

Financial controls

1.15 In response to the recommendations on internal controls for financial reporting made in our 2006 May Status Report, Chapter 1, the Treasury Board of Canada Secretariat committed to improving and strengthening the policy environment related to financial controls. In 2005, as a part of the audited financial statement initiative, the Secretariat had requested that large departments undergo a readiness assessment, which included the review of the control environment in which each department operated. At that time, the government's objective was to improve the integrity of financial information both for decision making and accountability. The purpose of the readiness assessment was to determine whether departments were ready to support a controls-based audit of such departmental financial statements. The Office of the Comptroller General within the Secretariat was to monitor results of the assessment and work with departments to ensure they took corrective action where necessary.

1.16 At the time of our 2006 audit, some departments were in the process of having this assessment done. In 2008, when all the readiness assessments were completed, none of the selected departments could demonstrate that they had sufficient controls in place to support a controls-based audit of financial statements. Most of these departments began work to improve their systems of internal control at that time. Subsequently, the departments' focus shifted from audited financial statements to the mandatory annual public disclosure of their risk-based assessment of controls over financial reporting and of their planned improvements. These requirements are set out in the 2009 Treasury Board Policy on Internal Control.

1.17 We examined the steps taken by the Secretariat to improve the policy environment for financial controls, including whether it had issued its policy instruments and whether the Office of the Comptroller General was supporting departments in implementing the policy requirements and monitoring departments' compliance with these requirements. We also examined whether the selected departments had assessed their internal controls for financial reporting and addressed gaps and weaknesses identified in order to work toward implementing the new policies.

The Secretariat has developed policies, directives, and standards for financial controls and is supporting departments in applying them

1.18 Development of policies, directives, and standards. We found that the Secretariat has developed new and stronger policy instruments to improve the financial and risk management capacities of departments at all levels. The Policy on Internal Control, which came into effect on 1 April 2009 for the 22 largest departments (including the 7 departments selected for this audit), is a critical element of the government's approach. This policy defines responsibilities for establishing, maintaining, communicating, and monitoring internal controls for managing public resources. It is designed to manage risk and support deputy heads, in fulfilling their responsibilities for providing reasonable assurance that their financial reporting controls are well maintained and that resources are well managed. The policy emphasizes having effective financial reporting controls to mitigate significant financial risks. It requires departments to perform an annual risk-based assessment of internal financial reporting controls and disclose the results of such assessments to the public, as well as their plans to address any changes needed. The intent of this policy is to increase public confidence and trust through strengthened accountability and transparency.

1.19 Support and monitoring. We found that the Office of the Comptroller General (OCG) is providing ongoing support to departments as they implement the policies and related directives and standards and has some mechanisms in place to monitor government-wide progress. The OCG's related actions include

- continued use of "policy centres" to provide guidance and support to departments and agencies, as they implement Treasury Board policies on financial management, and to facilitate the sharing of information and best practices across departments;
- development of guidelines and tools, in consultation with departments, for implementing policy requirements (for example, the new Guideline on Chief Financial Officer Qualifications and Guideline on Internal Control Over Financial Reporting);
- some improvements to the monitoring of financial management across the government, through ongoing modifications to its Management Accountability Framework (an assessment tool used to evaluate departmental performance against the Secretariat's

expectations for good management, including financial management); and

- audits of various government departments to assess performance on implementation of policies.

1.20 Officials from the selected departments informed us that they are pleased with the support that the OCG has provided on this initiative and are particularly satisfied with the consultative approach taken.

1.21 The OCG reviews departments' annual disclosure of the results of work done to date to assess internal controls for financial reporting. However, at the time of the audit, the OCG had not yet established processes for monitoring the completion of these assessments or for assessing actions taken by departments to address significant issues identified as required by the Policy on Internal Control. Moreover, there was no plan in place to determine when departments ought to identify or remedy any major weaknesses in their financial reporting controls. In addition, there were no plans to assess and monitor the progress in addressing those weaknesses (Exhibit 1.3). In our view, the OCG needs to increase its efforts in monitoring policy requirements.

Exhibit 1.3 Progress in addressing our recommendation on providing guidance to departments on internal financial controls

Recommendation	Progress
The Office of the Comptroller General should • work closely with internal auditors and senior financial officials in departments and agencies to develop a strategy for strengthening internal financial controls, • develop an implementation plan that includes deadlines by which departments and agencies must identify and remedy any weaknesses in their internal financial control systems and that provides for assessing and monitoring the progress in addressing those weaknesses, and • regularly monitor the actions of departments and agencies to assess their progress against this plan. (Recommendation 1.37 of the 2006 May Status Report of the Auditor General of Canada, Chapter 1, Managing Government: Financial Information)	**Unsatisfactory**

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

The selected departments are implementing the Policy on Internal Control but have not fully assessed their internal controls for financial reporting

1.22 We found that the seven selected departments have made some progress toward completing their annual risk-based assessments of financial reporting controls, as required by the Policy on Internal Control (Exhibit 1.4). These assessments and the related actions taken to address identified weaknesses are essential to having internal controls that are properly designed and implemented to address financial risks of the entity. Departments that are more advanced in carrying out these assessments have identified weaknesses in the design of their key financial controls, such as gaps in supporting documentation or weaknesses in controls over IT management processes (for example, access and change management processes). These departments are implementing action plans to address the weaknesses in design of controls. We have not audited the internal controls and therefore do not conclude whether internal controls are effective. However, we do note that the selected departments have not yet done all the work required under the Policy on Internal Control to assess their financial reporting controls.

1.23 In November 2010, we noted that the selected departments had included their progress and the expected date for completing the

Exhibit 1.4 Status of departments' assessments of financial reporting controls as of 30 September 2010

Departments	Documenting key business processes and controls	Testing design of internal controls	Testing effectiveness of internal controls	Planned date (fiscal year) to complete first full assessment of internal controls
Agriculture and Agri-Food Canada	●	◒	◒	2012–13
Department of Finance Canada	●	◒		2010–11
Foreign Affairs and International Trade Canada	●			2012–13
Human Resources and Skills Development Canada	●	◒	Not Started	2013–14
Indian and Northern Affairs Canada	●	◒	Not Started	2014–15
Transport Canada	●	◒		2011–12
Veterans Affairs Canada	●	●	○	2010–11

● **Substantially complete**—Most required actions are completed

◒ **Moderately complete**—Additional action is still required

○ **Partially complete**—Considerable action is still required

assessment of their financial reporting controls in an appendix to their departmental financial statements, which are available to the public on the departments' websites.

1.24 In summary, although the selected departments are making progress, much work remains to be done. It is expected that it will take years for most of the departments to complete the first full assessment of the design and effectiveness of their financial reporting controls. Considering the importance of ensuring that internal controls are in place and operating effectively, the timelines presented in Exhibit 1.4 may be lengthy. Furthermore, the departments have not fully implemented a program for the continuous monitoring of the effectiveness of their internal controls.

1.25 **Recommendation.** The seven audited departments (Agriculture and Agri-Food Canada, Department of Finance Canada, Foreign Affairs and International Trade Canada, Human Resources and Skills Development Canada, Indian and Northern Affairs Canada, Transport Canada, and Veterans Affairs Canada), in consultation with the Office of the Comptroller General, should review the timelines set for completing their full risk-based assessment of the effectiveness of their financial reporting controls and for addressing identified gaps and weaknesses, to ensure that they are timely. The departments should also implement programs for continuous monitoring of these controls to confirm their ongoing effectiveness.

The departments' response. Agreed. The selected departments are in the process of carrying out risk-based action plans for completing assessments of financial reporting controls within the current timelines. The departments generally agree to review these timelines in consultation with the Office of the Comptroller General, as well as any timelines they have or will set for addressing identified gaps and weaknesses in controls. Furthermore, the departments will continue to implement programs for ongoing monitoring of their financial controls.

1.26 **Recommendation.** The Treasury Board of Canada Secretariat should continue to review the departments' implementation of the Treasury Board Policy on Internal Controls to support the effectiveness of internal controls for financial reporting across government. This should include monitoring the departments' established timelines for completing their risk-based assessments of these controls. The Secretariat should also monitor the departments' actions to address significant issues identified as a result of their assessments, including monitoring that the actions are appropriate and timely.

The Secretariat's response. Agreed. The Secretariat continues to acknowledge the importance of monitoring and strengthening internal financial controls across government. The foundational Policy on Internal Control, in place since 1 April 2009, is a risk-based policy that advocates effective internal control over financial reporting in departments. A three-year, phased-in approach has been taken to the implementation of the policy and includes a requirement for departments to publish the results and action plans arising from assessments of the effectiveness of internal controls over financial reporting.

In implementing the Treasury Board's Policy on Internal Control, the Office of the Comptroller General (OCG) supports departments and the government's financial management community, by reaffirming the policy expectations and requirements and by providing tools and guidance. The OCG also monitors departmental progress in implementing the policy in a variety of ways, including, but not limited to, reviews of the annual departmental disclosure on internal controls over financial reporting, required under the Policy on Internal Control; assessments under the Management Accountability Framework; results of audits and evaluations; and special audits or horizontal audits that may be commissioned by the Comptroller General of Canada.

Integrated risk management

1.27 In response to our previous recommendations on integrated risk management, the Treasury Board of Canada Secretariat made a commitment to provide departments with ongoing support, guidance, and tools to raise awareness, build understanding, and support implementation of integrated risk management in government departments. It also made a commitment to encourage departments to implement the recommendations included in our previous report.

1.28 We examined the Secretariat's progress related to these commitments. Although individual departments made no commitments in response to our 2003 recommendations, we considered whether the selected departments had an integrated risk management function and an approach to integrating risk management into operations. We also assessed whether the selected departments had implemented key elements of corporate risk profiles and integrated risk management. We did not assess the completeness or appropriateness of the risks identified by the departments in the corporate risk profile.

The Secretariat's guidance and support to departments has improved

1.29 We found that the Secretariat has recently taken steps to improve guidance and support to departments for developing and implementing risk management within the departments. These steps included

- re-establishing the Centre of Excellence on Risk Management in 2008 to provide ongoing guidance to departments;
- issuing a new principle-based Framework for the Management of Risk in August 2010, which identifies the deputy head's responsibility for risk management and the Secretariat's responsibility to provide guidance, tools, and expertise to support departments;
- finalizing guides and tools in support of the new framework, including the Guide to Corporate Risk Profiles, Guide to Integrated Risk Management, Guide to Risk Taxonomies, and Risk Management Capability Model, as well as drafting the Risk Management Guide for Deputy Heads; and
- organizing forums and interdepartmental working groups for sharing best practices.

It is too early to assess whether the recent guidance will be effective in assisting departments in their ongoing efforts to improve integrated risk management.

The selected departments have corporate risk profiles and are integrating risk management into their operations

1.30 We found that all of the selected departments have an integrated risk management function in place. They have secured the resources needed to carry out this function, which is geared to identifying, assessing, and mitigating corporate risks. We noted that the departments are working to continually improve their corporate risk profiles and to further enhance the integration of risk management within their organizations.

1.31 **Corporate risk profiles.** We found that each of the selected departments has a corporate risk profile that outlines management's assessment of the department's environment and the key risks facing the department. Exhibit 1.5 is a summary of the departments' progress on implementing the main elements of their corporate risk profiles. This exhibit illustrates that progress has been satisfactory for all of the selected departments. Nevertheless, department officials recognize

that integrated risk management is an ongoing challenge and will continue to enhance their risk management processes, including those related to the application of risk tolerances, as well as the training of staff and the communication of risk to department staff.

1.32 **Integration of risk management into operations.** We found that most of the selected departments have integrated risk information into business planning, priority setting, decision making, and reporting (Exhibit 1.6). In addition, we found that all selected departments have made satisfactory progress in implementing our recommendations on integrated risk management (Exhibit 1.7).

Human resource capacity in financial management

1.33 Under the Treasury Board Policy on Financial Management Governance, the Office of the Comptroller General (OCG) is to provide leadership and direction to strengthen human resource capacity in the area of financial management across government departments. Given the current economic climate and the importance of financial management, departments understandably are working hard to maintain and strengthen their workforce for the future by recruiting, training, and developing the appropriate number of financial officers and managers with the required skills, competencies, and experiences.

Exhibit 1.5 Progress in implementing key elements of a corporate risk profile

	Elements of corporate risk profiles	
Entities	The corporate risk profile includes the identification and assessment of corporate risk and is regularly updated	Mitigation strategies are identified and accountability for their implementation is assigned
Agriculture and Agri-Food Canada	Satisfactory	Satisfactory
Department of Finance Canada	Satisfactory	Satisfactory
Foreign Affairs and International Trade Canada	Satisfactory	Satisfactory
Human Resources and Skills Development Canada	Satisfactory	Satisfactory
Indian and Northern Affairs Canada	Satisfactory	Satisfactory
Transport Canada	Satisfactory	Satisfactory
Veterans Affairs Canada	Satisfactory	Satisfactory

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Source: see Recommendation 1.65 of the 2003 April Report of the Auditor General of Canada, Chapter 1, Integrated Risk Management

Exhibit 1.6 Progress in implementing key elements of risk integration

	Elements of risk integration		
Entities	Risk information is integrated into planning and priority setting	Key risk information is reported	Risk information is communicated throughout the department and risk management training is available
Agriculture and Agri-Food Canada	Satisfactory	Satisfactory	Satisfactory
Department of Finance Canada	Satisfactory	Satisfactory	Satisfactory
Foreign Affairs and International Trade Canada	Satisfactory	Satisfactory	Satisfactory
Human Resources and Skills Development Canada	Satisfactory	Satisfactory	Satisfactory
Indian and Northern Affairs Canada	Satisfactory	Satisfactory	Satisfactory
Transport Canada	Satisfactory	Unsatisfactory	Satisfactory
Veterans Affairs Canada	Satisfactory	Satisfactory	Satisfactory

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Source: see Recommendation 1.48 of the 2003 April Report of the Auditor General of Canada, Chapter 1, Integrated Risk Management

Exhibit 1.7 Overall progress in addressing our recommendations on integrated risk management

Recommendation	Progress
The Treasury Board Secretariat should provide departments and agencies with comprehensive guidance and specific tools to assist them in developing the key capabilities needed to integrate risk management successfully. (Recommendation 1.93 of the 2003 April Report of the Auditor General of Canada, Chapter 1, Integrated Risk Management)	**Satisfactory**
Senior management in departments and agencies should ensure that a departmental risk profile is developed that identifies and assesses the key risks and challenges of the department and the level of risk it is willing to accept. The departmental risk profile should communicate the risks and the tolerance levels to managers and staff so they understand the boundaries or limits within which they are expected to manage risk. (Recommendation 1.65 of the 2003 April Report of the Auditor General of Canada, Chapter 1)	**Satisfactory**
Senior management in each department and agency of the government should visibly and actively demonstrate clear, sustained commitment and leadership to ensure the successful implementation of integrated risk management. This should include such things as assigning adequate resources, monitoring the progress of implementation against an approved plan, and demanding risk-based information to support strategic decision making. (Recommendation 1.48 of the 2003 April Report of the Auditor General of Canada, Chapter 1)	**Satisfactory**

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

1.34 We looked at the measures that the OCG and selected departments had taken to identify and address the government's need for knowledgeable and skilled financial professionals. In the seven departments, we examined whether the chief financial officers (CFOs) have the necessary qualifications, as recommended by the OCG's Guideline on Chief Financial Officer Qualifications. We also assessed whether the CFOs' roles, responsibilities, and accountabilities complied with the Policy on Financial Management Governance. This included determining whether these individuals had any program delivery responsibilities that could conflict with their roles and responsibilities as CFOs.

1.35 We found that the OCG is providing effective leadership in enhancing human resource capacity for the financial community government-wide. We also found good leadership within departments, as the departments have training and development plans in place to meet many of their current capacity requirements. However, the OCG and departments need to collaborate and develop a strategic approach to ensure that succession planning is addressed for the anticipated turnover of senior financial executives.

The chief financial officers and their deputies are professionally qualified

1.36 The deputy head is responsible under the Policy on Financial Management Governance to consider the Guideline on Chief Financial Officer Qualifications when appointing chief financial officers. We found that all the CFOs in the selected departments met the requirements for their position and that the roles, responsibilities, authorities, and accountabilities assigned to them complied with the Policy on Financial Management Governance.

1.37 As well, the CFOs in the selected departments provide advice to deputy ministers on strategic financial choices. During the audit, we noted many examples where the CFOs sit on senior management committees to provide strategic advice. For example, the Chief Financial Officer at Transport Canada sits on the Department's senior policy, programs, regulatory, and integrated management committees to provide input on strategic and operational issues, as well as on the financial implications of issues and decisions. Details on the CFO's participation in these committees are set out in Transport Canada's new Budget Management Framework that supports the Department's strategic plans and program activity architecture. The framework represents a shift from the former practice of allocating and reallocating budgets based simply on organizational structures. This demonstrates changes influenced by the CFO's advice.

1.38 We also examined whether the CFOs and their deputies in the selected departments, as well as in the 15 other large government departments (not subject to this audit), met the professional accounting designation requirements of the Policy on Financial Management Governance.

1.39 In 2002, when we first reported on this issue, only 33 percent of senior financial officers had recognized professional accounting designations. In 2010, we found that 82 percent of chief financial officers and 82 percent of the deputy chief financial officers in the 22 largest departments had these designations. While the Guideline on Chief Financial Officer Qualifications requires that at least one of these officers hold one such designation, in many departments, both officers held designations. This is a significant improvement across the government since we first reported on this issue eight years ago. This high level of professional qualification provides the large departments with the skills and competencies to continue the work to fully meet the requirements of the financial management and control policies.

1.40 The Office of the Comptroller General has put in place a number of measures to address issues related to human resource capacity, including

- promoting professional accounting designations for all mid-level financial officers and financial managers across government;
- continuing the Financial Officer Development Program and introducing the Chartered Accountant Student Training Program for entry level positions in government;
- developing mandatory training courses for all financial officers;
- conducting special staffing initiatives, to establish pre-qualified pools from which government departments may hire financial officers; and
- organizing forums for financial managers to discuss issues and share best practices.

These initiatives are all positive developments that are expected to serve the financial community well into the future. We encourage the government to continue these initiatives and build upon them as warranted.

Human resource capacity in financial management has been enhanced across departments

1.41 We found that all of the selected departments were regularly monitoring their human resource capacity in the area of financial management and had human resource plans that were in line with their corporate plans for financial management. The departments had identified, on a timely and thorough basis, their shortages of financial officers, gaps in knowledge and competency, and the need to review and maintain financial human resource capacity at all levels. All seven of the departments had plans for training staff and providing developmental experience within the department and, in September 2010, staff were to start following the mandatory course curriculum within their department.

1.42 Although most of the selected departments found they could attract financial officers, keeping them within a particular department was often a challenge. For example, it is not uncommon for an accounting professional to change departments to obtain a promotion more rapidly. A 2009 Treasury Board of Canada Secretariat survey identified the rapid promotion of financial officers as a key cause of the knowledge and competency gaps. To address this issue, the departments are trying to retain their financial officers by offering varied experience and development opportunities within a department and establishing career paths. As well, the Office of the Comptroller General has drafted a new competency model to help departments assess promotion readiness.

Departments need to work with the Office of the Comptroller General to ensure that succession strategies are in place

1.43 Given that a number of senior financial executives within government departments will be eligible to retire in the near future, it is important that departments have succession strategies in place to prepare for those retirements. We found that departments are at various stages in the process of putting succession strategies in place. In our view, departments should collaborate with the Office of the Comptroller General to ensure they have succession strategies to meet future needs.

1.44 **Recommendation.** Selected departments, in collaboration with the Office of the Comptroller General, should ensure that succession strategies are in place to address upcoming vacancies in key senior financial positions.

The departments' response. Agreed. The Office of the Comptroller General (OCG) has recently initiated a competitive process for the establishment of a pool of candidates at the EX-02 and EX-03 levels. The departments will participate in this process and will continue to collaborate with the OCG to support efforts to develop a succession planning strategy to address upcoming and ongoing vacancies in key senior financial positions.

Accrual-based budgeting and appropriations

1.45 Accrual-based financial information reflects a more complete picture of government resources, obligations, financing, costs, and the impact of activities than cash-based accounting. Applied to budgeting and appropriation of funds, it is intended to provide management with complete cost information and allow for more informed decision making, such as when evaluating the cost-effectiveness of in-house delivery versus contracting for services. Having this financial information provides improved transparency and accountability and better information for planning and controlling operating and capital spending. This, in turn, can give legislators more information to consider in holding government accountable for

- the stewardship of public assets,
- the full costs of programs, and
- its short-term and long-term financial obligations.

1.46 Our previous chapters, dating as far back as 1998, have highlighted the lack of progress made in implementing full accrual-based budgeting and appropriations. The House of Commons Standing Committee on Public Accounts has recommended the adoption of accrual-based budgeting and appropriations and has repeatedly urged the Treasury Board of Canada Secretariat to implement these measures.

1.47 In our 2006 May Status Report, Chapter 1, Managing Government: Financial Information, we recommended that the Secretariat promptly complete its study and develop a plan for a common approach to accrual-based budgeting and appropriations for use by departments. In response, the Secretariat committed to having an independent contractor complete a study and to develop an implementation plan. Our current audit examined the steps that the Secretariat had taken since 2006.

The Secretariat needs to decide whether the government will fully adopt accrual-based budgeting and appropriations

1.48 Accrual financial information is used to prepare departments' annual financial results for reporting to Parliament and Canadians. However, the Secretariat has not made a clear commitment to fully implement the additional approaches of accrual-based budgeting and appropriations across the government. In fall 2006, the Secretariat presented to parliamentarians the results of a study, by an independent contractor, of accrual-based budgeting and appropriation practices of other governments.

1.49 In 2008, the Secretariat outlined its implementation plan for introducing accrual-based budgeting in departments. Departments are required to supplement their annual plans, based on cash accounting, with future-oriented financial statements that are summarized in a separate section in each of their reports on plans and priorities and that are attached as a link to the departments' websites. These future-oriented statements are based on a one-year forecast. They are derived from departments' approved operational expenditures and adjusted for accrual information and managements' expectations of the financial impact of federal budget announcements and other anticipated future events. Beginning with a pilot of 10 departments in the 2009–10 fiscal year, these statements will become mandatory for all departments in the 2011–12 fiscal year.

1.50 The Secretariat is of the view that the preparation of future-oriented financial statements on an accrual basis and the comparison of those amounts against actual results in the historical financial statements meets the definition of accrual budgeting. However, the Secretariat has not provided guidance or set requirements for using the accrual information included in the future-oriented financial statements in departmental planning and decision making. Most of the selected departments still do not use accrual budgeting information to manage on a day-to-day basis, as managers are held accountable for managing the funding they receive through appropriations, which is on a near-cash basis.

1.51 The Secretariat plans to evaluate the results of the accrual-based budgeting project and continue studying the benefits of extending the use of accrual accounting to appropriations in the 2012–13 fiscal year. The Secretariat has indicated to us that it has not made a decision on whether to implement accrual-based appropriations pending completion of the evaluation. It is not clear to us how this future-oriented financial

statement project will ensure the implementation of accrual-based budgeting throughout government, or how it will address whether and how to implement accrual-based appropriations. As well, the Secretariat indicated that it wants to further examine international implementation experiences and issues on these subjects and professional literature and studies of these concepts.

1.52 We found that, after 10 years of discussing this issue, the Secretariat has not decided whether to fully implement the use of accrual financial information for budgeting and appropriations in departments (Exhibit 1.8). In the meantime, in practice budgets and appropriations, with a few exceptions, are based on the cash method of accounting. In our view, this does not present the full range of financial implications. We continue to believe that accrual-based budgeting and accrual-based appropriations would be of benefit to the government. In our view, it will promote more informed decision making and transparency by providing the full cost of programs and activities of the government and improve accountability for operating and capital spending. We encourage the Secretariat to undertake and complete its study as planned and decide if it will implement accrual-based appropriations.

Exhibit 1.8 Progress in addressing our recommendation on completing the study of budgeting and appropriations and presenting an implementation plan

Recommendation	Progress
The Treasury Board Secretariat should promptly complete the study of accrual-based budgeting and appropriations at the departmental level. It should then present the proposed approach for a common basis of planning, budgeting, and reporting, along with an implementation plan, to the House of Commons Standing Committee on Public Accounts. (Recommendation 1.18 of the 2006 May Status Report of the Auditor General of Canada, Chapter 1, Managing Government: Financial Information)	**Unsatisfactory**

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Conclusion

1.53 Overall, the Treasury Board of Canada Secretariat, including the Office of the Comptroller General (OCG), and the selected departments have made satisfactory progress against commitments in many of the areas we audited. However, much work remains to be done to implement the Policy on Internal Control, and this work is expected to take years to complete. As well, the issue of implementing accrual-based budgeting and accrual-based appropriations has not been satisfactorily addressed.

1.54 The OCG has made progress against its previous commitments to improve the policy environment, frameworks, and guidance pertaining to financial controls across the government. It has done this by establishing a policy foundation and providing departments with the guidance and tools necessary to successfully implement policy requirements.

1.55 The selected departments have made good progress in developing their corporate risk profiles. They are working on continually improving the integration of risk management into their planning, decision making, and reporting, including enhancing communication of risk tolerance within their organizations.

1.56 The OCG and the selected departments have strengthened their human resource capacity in the area of financial management through various initiatives, including recruiting and training financial staff. Succession strategies for addressing upcoming vacancies in senior financial positions need to be better addressed.

1.57 The Secretariat has not made satisfactory progress in implementing accrual-based budgeting and appropriations and has not made a clear commitment to do so.

About the Audit

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Objectives

The objective of the audit was to determine whether the Treasury Board of Canada Secretariat, the Office of the Comptroller General of Canada (OCG) within the Secretariat, and each of the seven selected departments have made satisfactory progress in implementing selected recommendations and addressing relevant observations reported in our 2006 May Status Report, Chapter 1, Managing Government: Financial Information and our 2003 April Report, Chapter 1, Integrated Risk Management.

Scope and approach

The audit covered the Secretariat, which includes the Office of the Comptroller General, as well as the following seven large departments, which represent about 60 percent of government expenditures:

- Agriculture and Agri-Food Canada
- Department of Finance Canada
- Foreign Affairs and International Trade Canada
- Human Resources and Skills Development Canada
- Indian and Northern Affairs Canada
- Transport Canada
- Veterans Affairs Canada

To determine whether senior financial managers had accounting designations, we looked at 15 of the largest departments, in addition to the 7 selected for audit.

We conducted interviews with senior management and staff in the Secretariat, the OCG, and each of the seven departments. We also reviewed and analyzed the supporting documentation that the departments and central agencies provided us with. In addition, we confirmed whether chief financial officers and their deputies who indicated that they had professional accounting designations were members in good standing with their professional accounting bodies. We did not assess specific internal controls in the selected departments, nor did we audit the appropriateness and the completeness of the risks identified by departments in their corporate risk profiles.

Criteria

To determine whether the Treasury Board of Canada Secretariat and selected departments had made progress on enhancing financial controls, we used the following criteria

Criteria	Sources
The Treasury Board of Canada Secretariat and the Office of the Comptroller General (OCG), in cooperation with departments and agencies, develop and implement strategies for improving financial controls government-wide, including the following: • The Secretariat develops policies, directives, and standards for establishing and maintaining financial controls. • The OCG provides guidance, tools, and support to departments for the interpretation and implementation of Treasury Board policies and related directives and standards. • The OCG monitors departmental compliance with financial management and control policies, directives, and standards, and the overall state of financial control government-wide.	• The Programs and Activities of the Secretariat, Management Policy Development and Oversight, Treasury Board of Canada Secretariat (website: tbs-sct.gc.ca) • Policy on Financial Management Governance, sections 5.3 and 6.2—OCG responsibilities, Treasury Board, 2009 • Framework for the Management of Compliance, section 8.2, Treasury Board, 2008 • 2006 May Status Report of Auditor General of Canada, Chapter 1, Managing Government: Financial Information, Recommendation 1.37 and related response of the Secretariat
The selected departments assess the effectiveness of their system of internal controls for financial reporting and ensure that it is maintained, monitored, and reviewed, with timely corrective measures taken when issues are identified.	• Policy on Internal Control, sections 5.2.1, 5.2.2, and 6.1.2, Treasury Board, 2009 • Policy on Financial Management Governance, section 5.4, Treasury Board, 2009

To determine whether the Treasury Board of Canada Secretariat and selected departments had improved integrated risk management, we used the following criteria

Criteria	Sources
The Treasury Board of Canada Secretariat provides guidance, tools, and support to departments for implementing integrated risk management and monitors departmental and agency performance in this area	• The Programs and Activities of the Secretariat, Management Policy Development and Oversight, Treasury Board of Canada Secretariat (website: tbs-sct.gc.ca) • Integrated Risk Management Framework, Shared Leadership—Suggested Roles and Responsibilities, Treasury Board of Canada Secretariat, 2001 • 2003 April Report of the Auditor General of Canada, Chapter 1, Integrated Risk Management, recommendations 1.93 and 1.98 and related government responses
The selected departments have up-to-date corporate risk profiles that identify their key risks and risk tolerances, and these are communicated to management and staff throughout the entity.	• Integrated Risk Management Framework, Element 1—Developing the Corporate Risk Profile, Treasury Board of Canada Secretariat • Integrated Risk Management Implementation Guide, Section 1—Developing the Corporate Risk Profile, Treasury Board of Canada Secretariat • Enterprise Risk Management: Integrated Framework, Components of Enterprise Risk Management, Committee of Sponsoring Organizations of the Treadway Commission • 2003 April Report of the Auditor General of Canada, Chapter 1, Integrated Risk Management, Recommendation 1.65 and related government response

The selected departments have action plans in place to integrate risk information into strategic planning, decision making, and day-to-day operations within reasonable time frames, and departments regularly assess their progress against these plans.	• Integrated Risk Management Framework, Element 3—Practicing Integrated Risk Management, Treasury Board of Canada Secretariat • Enterprise Risk Management: Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission • ISO 31000: Risk Management— Principles and guidelines 2009, section 4.3.4, ISO • 2003 April Report of the Auditor General of Canada, Chapter 1, Integrated Risk Management, recommendations 1.48, 1.56, and 1.81 and related government responses

To determine whether the Treasury Board of Canada Secretariat and selected departments had sufficient capacity of financial management human resources we used the following criteria

Criteria	Sources
The Office of the Comptroller General provides leadership and direction geared to strengthening financial human resource capacity government-wide.	• Policy on Financial Management Governance, section 5.3—Comptroller General's responsibilities: items 5.3.6, 5.3.7 and 5.3.8, and section 6.2—item 6.2.4, Treasury Board, 2009 • The Programs and Activities of the Secretariat, Management Policy Development and Oversight, Treasury Board of Canada Secretariat (website: tbs-sct.gc.ca)
The selected departments have implemented the Chief Financial Officer model and have systems, processes, and practices in place that are designed to ensure that they have the financial and risk management human resource capacity to meet their current and future requirements.	• Policy on Financial Management Governance, section 5.4, Treasury Board, 2009 • Management Accountability Framework, Graphic 3—Measures—People, Treasury Board of Canada Secretariat

To determine whether the Treasury Board of Canada Secretariat and selected departments had made progress on implementing accrual-based budgeting and appropriations, we used the following criteria

Criteria	Sources
The Treasury Board of Canada Secretariat has completed its study of accrual-based budgeting and appropriations and is developing and implementing an approach for a common basis of planning, budgeting, and reporting.	• Sixth Report of the Standing Committee on Public Accounts: Public Accounts of Canada 2008, 2nd session of the 40th Parliament—Government response (Presented to the House on 19 August 2009) • Tenth Report of the Standing Committee on Public Accounts: Public Accounts of Canada 2009, 3rd session of the 40th Parliament—Government response (Presented to the House on 18 August 2010) • 2006 May Status Report of the Auditor General of Canada, Chapter 1, Managing Government: Financial Information, Recommendation 1.18 and the related Secretariat's response • Treasury Board of Canada Secretariat, Report on Plans and Priorities 2009–10—Analysis of Program Activity

Management reviewed and accepted the suitability of the criteria used in the audit.

Period covered by the audit

The audit covered the period from 1 April 2009 to 30 September 2010. Audit work for this chapter was substantially completed on 30 September 2010.

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Appendix List of recommendations

The following is a list of recommendations found in Chapter 1. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
Financial controls	
1.25 The seven audited departments (Agriculture and Agri-Food Canada, Department of Finance Canada, Foreign Affairs and International Trade Canada, Human Resources and Skills Development Canada, Indian and Northern Affairs Canada, Transport Canada, and Veterans Affairs Canada), in consultation with the Office of the Comptroller General, should review the timelines set for completing their full risk-based assessment of the effectiveness of their financial reporting controls and for addressing identified gaps and weaknesses, to ensure that they are timely. The departments should also implement programs for continuous monitoring of these controls to confirm their ongoing effectiveness. **(1.15–1.24)**	**The departments' response.** Agreed. The selected departments are in the process of carrying out risk-based action plans for completing assessments of financial reporting controls within the current timelines. The departments generally agree to review these timelines in consultation with the Office of the Comptroller General, as well as any timelines they have or will set for addressing identified gaps and weaknesses in controls. Furthermore, the departments will continue to implement programs for ongoing monitoring of their financial controls.

Recommendation	Response
1.26 The Treasury Board of Canada Secretariat should continue to review the departments' implementation of the Treasury Board Policy on Internal Controls to support the effectiveness of internal controls for financial reporting across government. This should include monitoring the departments' established timelines for completing their risk-based assessments of these controls. The Secretariat should also monitor the departments' actions to address significant issues identified as a result of their assessments, including monitoring that the actions are appropriate and timely. **(1.15–1.24)**	**The Secretariat's response.** Agreed. The Secretariat continues to acknowledge the importance of monitoring and strengthening internal financial controls across government. The foundational Policy on Internal Control, in place since 1 April 2009, is a risk-based policy that advocates effective internal control over financial reporting in departments. A three-year, phased-in approach has been taken to the implementation of the policy and includes a requirement for departments to publish the results and action plans arising from assessments of the effectiveness of internal controls over financial reporting. In implementing the Treasury Board's Policy on Internal Control, the Office of the Comptroller General (OCG) supports departments and the government's financial management community, by reaffirming the policy expectations and requirements and by providing tools and guidance. The OCG also monitors departmental progress in implementing the policy in a variety of ways, including, but not limited to, reviews of the annual departmental disclosure on internal controls over financial reporting, required under the Policy on Internal Control; assessments under the Management Accountability Framework; results of audits and evaluations; and special audits or horizontal audits that may be commissioned by the Comptroller General of Canada.
Human resource capacity in financial management	
1.44 Selected departments, in collaboration with the Office of the Comptroller General, should ensure that succession strategies are in place to address upcoming vacancies in key senior financial positions. **(1.43)**	**The departments' response.** Agreed. The Office of the Comptroller General (OCG) has recently initiated a competitive process for the establishment of a pool of candidates at the EX-02 and EX-03 levels. The departments will participate in this process and will continue to collaborate with the OCG to support efforts to develop a succession planning strategy to address upcoming and ongoing vacancies in key senior financial positions.

Status Report of the Auditor General of Canada to the House of Commons—2011

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Chapter 2
Large Information Technology Projects

Office of the Auditor General of Canada



2011



Status Report
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Auditor General of Canada
to the House of Commons

Chapter 2
Large Information Technology Projects

Office of the Auditor General of Canada

The 2011 Status Report of the Auditor General of Canada comprises Matters of Special Importance, Main Points—Chapters 1 to 6, an appendix, and seven chapters. The main table of contents for the Report is found at the end of this publication.



The Report is available on our website at www.oag-bvg.gc.ca.

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Chapter

2

Large Information Technology Projects

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Large Information Technology Projects

Main Points

What we examined

Large information technology (IT) projects involve more than introducing new hardware and software and systems. These projects can introduce new processes and practices—new ways of doing business—that also need to be successfully implemented before organizations can take advantage of potential efficiencies and savings. When successful, these projects can change the way that departments carry out their work and improve services to Canadians. Because large IT projects are complex and costly, they usually involve long planning and development times and require significant investments (on average, over three years and more than $70 million).

In 2006, we looked at seven large IT projects and found that only two of them met all of our audit criteria for well-managed projects. We found that five of the seven projects had proceeded even though their business cases were incomplete or out of date or contained information that could not be supported. In addition, four of the projects were undertaken by departments that lacked the required skills and experience to manage them. Although by 2006 the Treasury Board of Canada Secretariat had established a framework of best practices for managing IT projects, many of the problems identified some nine years earlier had persisted. In 2006, we also found that limited progress had been made since our previous audit in 1997.

For this status report, we examined the progress made since 2006 by the four departments that had not met all of our criteria in 2006. We also selected a new project, approved by the Treasury Board since 2006, in order to assess the government's progress in the way it approves and manages large IT projects.

In our 2006 audit, we were denied access to information by the Secretariat, which prevented us from completing our review of its challenge role in support of oversight of large IT projects by Treasury Board ministers. In this audit, we were able to review information that demonstrated the role played by the Secretariat.

Audit work for this chapter was substantially completed on 29 October 2010.

Why it's important

The federal government relies on information technology systems to provide many programs and services to Canadians. Large IT projects are inherently complex, expensive, and risky. Since 2002, the federal government has approved funding of $7.5 billion for new business projects making significant use of information technology. In the four audits we performed since 1995, the projects audited have a history of cost overruns and delays, and of not delivering what had been planned originally.

What we found

- Overall, the government has made unsatisfactory progress on its commitments in response to our 2006 recommendations. Although some improvements have been made, progress has been unsatisfactory in the important areas of governance and project business cases. Only two of the five projects we looked at, the Temporary Resident Biometrics Project and Integrated Revenue Collections systems, met most of our criteria for well-managed projects.
- In order to increase the likelihood of success, departments have significantly reduced the scope of the projects and considerably extended their timelines. In the area of project governance, the Expenditure Management Information System and Global Case Management System have had important deliverables deferred without full analysis of the impacts and costs of not completing these projects. In three of the five projects examined, the project business cases did not identify measurable benefits or the benefits have not been measured. For example, the 2007 business case for the Secure Channel no longer quantifies the financial benefits.
- In three of the four projects we examined, departments adequately assessed their capacity to manage the projects and demonstrated that they were ready to accept the business transformation that came with them; in three of the four projects, departments have done an adequate job of managing projects risks.
- The Secretariat has met the commitments it made in response to our recommendations we addressed to it. Since 2007, it has completed a policy suite renewal, which has led to new policies, standards, and guidance that will directly impact information technology projects by the end of the five-year implementation period. The Secretariat has been actively challenging departments in their preparation of their IT project submissions; recently (September 2010) it also submitted its first semi-annual report to Treasury Board ministers summarizing the health of large IT projects across government. That report provided a snapshot of 12 ongoing projects with a total value of

$2.4 billion. However, it is too early to assess whether these measures will have a significant impact on the management of large IT projects by departments.

The organizations have responded. The organizations agree with all of the recommendations. Their detailed responses follow the recommendations throughout the report.

Introduction

2.1 Information Technology (IT) projects are critical to maintaining and improving the quality and efficiency of the federal public service. These projects extend beyond the technical aspects of replacing hardware and software. For example, new high-speed electronic services may replace high-volume manual transactions, resulting in the modernization of current work practices and transforming the way the departments or agencies do business. These projects could also involve replacing aging applications and infrastructure that are becoming increasingly expensive to operate and may pose certain risks to the delivery of services to Canadians.

What we found in previous audits

2.2 The Office of the Auditor General has examined the management of large IT projects (referred to in our previous reports as "systems under development") four times since 1995. In 1995, 1996, and 1997, we reported that IT systems under development were characterized by

- inadequate analysis of underlying business issues,
- inconsistent support from senior management,
- a lack of experienced resources on project teams,
- unrealistic time frames,
- inconsistent involvement and acceptance on the part of users, and
- a lack of effective monitoring.

2.3 In Chapter 3 of our 2006 November Report, we revisited large IT projects, given the significant investments that the federal government was making in this area. We found there had been limited progress since our 1997 audit and that, although the Treasury Board of Canada Secretariat had established a framework of best practices for managing IT projects, many of the problems that we cited in past reports were still evident. We also found that, only two of the seven projects we reviewed met all of our audit criteria for well-managed projects.

Events since our last audit

2.4 At the time of our 2006 audit, a large IT project was defined as a business project that incorporated a significant IT component, with an estimated value that exceeded the project approval limit of a department or agency, and therefore required Treasury Board approval to proceed. Since 2006, new criteria for setting departmental approval

limits for projects, including IT projects, were introduced. These criteria assist in ranking a department's overall capacity to manage projects and the given IT project's risk and complexity.

2.5 In late 2006, the Treasury Board approved the new Policy Framework for the Management of Assets and Acquired Services, supported by policies approved in 2007. These policies and their supporting standards are designed to ensure that the government's investments in large capital projects, including IT-enabled projects, are managed more effectively and economically. Departments have until April 2012 to fully implement these policies and standards.

2.6 From July 2006 to 2010, the Treasury Board approved 45 business projects with a significant information technology component for a total value of over $3.2 billion. This compares with the 75 projects approved for a total value of $3.4 billion from 2002 to June 2006. During the same period, the Canada Revenue Agency approved 35 projects with a significant information technology component for a total value of $456 million, compared with 23 projects for a total value of $431 million from 2002 to 2006.

Focus of the audit

2.7 We examined the Secretariat's role in challenging large IT projects and supporting Treasury Board ministers' oversight, as well as its provision of guidance to departments on effective management and oversight of their IT projects.

2.8 We also assessed progress since 2006 of the four projects that had not met all of our audit criteria and were not cancelled:

- Expenditure Management Information System, at the Treasury Board of Canada Secretariat
- Global Case Management System, at Citizenship and Immigration Canada
- Integrated Revenue Collections, at the Canada Revenue Agency
- Secure Channel, at Public Works and Government Services Canada

2.9 We reviewed one additional project, the Temporary Resident Biometrics Project, at Citizenship and Immigration Canada. Since the Secure Channel project was completed by 2006, during our current audit, we looked at only the progress made in measuring and reporting on defined benefits presented in its business case.

2.10 We also reviewed actions taken in relation to the government's commitments in response to the recommendations the Parliamentary Standing Committee on Public Accounts made in its 7th and 4th reports to the House of Commons on 25 February 2008 that were relevant to issues within our audit scope.

2.11 More details about the audit objectives, scope, approach, and criteria can be found in **About the Audit** at the end of this chapter.

Observations and Recommendations

Treasury Board of Canada Secretariat's roles and responsibilities

During our 2006 audit, the Office of the Auditor General did not have full access to information related to the Secretariat's challenge role in support of Treasury Board ministers' oversight responsibilities, so we could not complete that part of our audit. During this audit, we were able to review information that demonstrated the role played by the Secretariat and have included our findings here along with our examination of progress against past recommendations.

2.12 This section reports on new audit work that deals first with the Treasury Board of Canada Secretariat's challenge role in support of Treasury Board ministers' oversight of large IT projects. Second, it reports on the Secretariat's guidance to departments on effective management and oversight of large IT projects. Finally, we reviewed the actions taken in relation to the government's commitments in response to recommendations made in 2006 that related directly to the Secretariat's leadership role, and in response to recommendations made by the Public Accounts Committee in its 7th report to the House of Commons in 2008.

2.13 The Secretariat makes recommendations and provides advice to the Treasury Board on policies, directives, regulations, and program expenditure proposals with respect to the management of the government's resources. Its other roles include providing leadership to help departments and agencies to both adopt best management practices and improve their performance.

2.14 We examined the Secretariat's governance mechanisms to determine whether it has an effective framework for the government-wide portfolio of large IT projects under development.

Central monitoring of large IT projects has been recently enhanced

Executive project dashboard—A business management tool used to visually represent the health and status of a project or portfolio of projects. Dashboards report on the core project metrics affecting the project's overall health and benefits realization, including cost, schedule, scope, risks, and issues. Their purpose is to draw attention to project areas that might require corrective action. Executive project dashboards are essential for ensuring consistency in reporting on the management of IT-enabled business projects to senior management, primarily at the deputy minister and assistant deputy minister levels.

2.15 We examined whether the Secretariat, and more specifically its Chief Information Officer Branch (CIOB), has instituted measures for monitoring and reporting on large IT projects.

2.16 Since December 2009, the CIOB has periodically received **executive project dashboards** for 12 large IT-enabled business projects with a total value of $2.4 billion. These 12 IT projects are a subset of the total IT project portfolio; they were selected based on the following criteria: significant complexity and risk, significant change in

performance, and an estimated budget that exceeded $100 million. The dashboards provide a periodic (usually monthly) snapshot of the overall health of these projects.

2.17 The Secretariat committed to report, on a semi-annual basis, to Treasury Board on the overall health of large IT projects. The IT-enabled Project Portfolio Status Report is the primary governance mechanism for monitoring and advising the Treasury Board on the health of large IT projects across government. The CIOB presented this report to the Treasury Board for the first time in September 2010. It indicated that eight projects totalling $1.9 billion were on track, one project needed some course correction, and three projects totalling $463 million needed significant course correction. During this audit, we examined two of the twelve projects in the report.

2.18 The Assistant Deputy Minister Executive Project Oversight Committee, which was established in July 2009, is chaired by the Chief Information Officer (CIO). The committee provides guidance on the development of the semi-annual report on IT-enabled project oversight and advises the CIO, who in turn uses the report to provide advice and recommendations on selected key IT initiatives to the Treasury Board.

2.19 These governance mechanisms that the Secretariat has recently implemented are a significant improvement in monitoring the health of large IT projects in which the government invests billions of dollars. However, it is too early to assess their impact on the success of these projects.

The Secretariat's review mechanisms contribute to the success of large IT projects

2.20 We examined the systems and practices that the Secretariat has designed to increase the likelihood of success for large IT projects at the outset, during the Treasury Board submission and approval process. This relates to our 2006 recommendation for improved requirements for the business cases prepared by departments and agencies.

2.21 A key practice to enhance the likelihood of success is to review large IT project submissions from departments before presenting them to the Treasury Board for approval. A submission must include

- links to new and existing government programs;
- clear links to Government of Canada IT strategic directions;
- clear objectives, expected results, and business outcomes; and
- details of the options considered.

2.22 We found that the Secretariat looks for evidence that departments are using effective project management and oversight practices that are suitable for large IT projects. We also noted that the Secretariat has provided comprehensive guidance to departments in its Business Case Guide and Outcome Management Guide.

2.23 We found that the CIOB reviews IT project submissions to determine whether the "conditions for success" are apparent in the management framework that the department will use for the proposed project. CIOB officials probe and challenge the project proposal to determine whether there is

- a clear business justification;
- a clear and reasonable scope;
- a suitable governance framework; and
- reasonable estimates, decision points, and independent reviews.

2.24 In the submissions we reviewed, we found documentation of the Secretariat's challenges in the form of emails and meeting notes but no formal procedures on how it performs its review and challenge function. The Secretariat informed us that the challenge process is largely done orally and the extent of the review depends on the nature of the proposal, and that various policies apply on a case-by-case basis.

2.25 Based on industry-leading practices, the CIOB has created additional tools and guides to assist the departments in improving IT project management. Although it is not mandatory for departments to use these tools, the CIOB uses them in its review of project submissions. The Secretariat's program sectors seek advice on IT issues from the CIOB, and both the CIOB and the program sectors communicate with departments to offer them advice on the proposed management framework of their IT projects. The CIOB has implemented an independent review program that uses a gating framework designed to enable departments to improve their investment outcome. It strongly encourages departments that are undertaking complex, high-risk IT projects to take advantage of this program early in the planning process. The departments use these independent reviews to gather objective evidence to validate their options and costs, assess the feasibility of their project plans and schedule, and assess the capacity of the organization to take on the project.

2.26 Secretariat officials told us that its challenge function is limited to a review of compliance with government policy because the deputy minister of a department is responsible for ensuring the completeness

and accuracy of the submission. The deputy minister in turn relies on the recommendation of the senior financial officer to proceed with a project submission to the Treasury Board. Since December 2007, the senior financial officer must attest to the deputy minister that, in his or her professional opinion, the information in the submission is fairly presented, proper analysis has been carried out, and due diligence has been exercised.

2.27 We observed that, since the clarification of the senior financial officer's responsibility, the Treasury Board submissions and supporting business cases for the projects that we reviewed have more conservative plans and reduced scope than before. We also noted that the departments have undertaken independent reviews of their project plans and organizational capacity to assist them in performing their due diligence before submitting their project proposals to Treasury Board.

2.28 Based on these findings, the Secretariat and its CIOB have made satisfactory progress against our recommendation for improved requirements for business cases (Exhibit 2.1).

Exhibit 2.1 Progress in addressing our recommendation on business cases

Recommendation	Progress
The Treasury Board Secretariat should improve the requirements for sound business cases prepared by departments and agencies to ensure that they include, at a minimum, precise and measurable objectives; a full analysis of options, benefits, costs, and risks; and an implementation plan. (Recommendation 3.90 of the 2006 November Report of the Auditor General of Canada, Chapter 3, Large Information Technology Projects)	Satisfactory

Satisfactory – Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory – Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

The Secretariat has improved its policy framework for the overall direction of large IT projects

2.29 We recommended in 2006 that the Secretariat ensure that departments demonstrate their capacity to undertake large IT projects.

2.30 In 2006, Treasury Board approved the Policy Framework for the Management of Assets and Acquired Services, which sets overall direction for large projects. The framework is made up of policies and

standards that seek to ensure that government projects provide value for money and are managed effectively.

2.31 The Secretariat is responsible for assessing whether departmental deputy ministers comply with the framework's policies and standards and for advising the Treasury Board on the need for additional mechanisms if needed. Full compliance with these policies and standards is not required until 2012, five years after they came into effect.

2.32 The Policy on Investment Planning, which is part of the new framework, requires departments to submit an investment plan covering a minimum five-year period. The Policy on the Management of Projects, which is also part of the new framework, requires departments to submit an Organizational Project Management Capacity Assessment. The result of the capacity self-assessment is one of the new measures used to arrive at the project approval limit for the department. The Secretariat has committed to completing a high-level review of the completeness of the department's self-assessment and does not examine the department's project management capacity for each of its capital projects, which Treasury Board policy indicates is the role of deputy ministers. At the time of this audit, Public Works and Government Services Canada was the only department among those we examined that had completed the self-assessment of its organizational project management capacity and submitted it to the Secretariat for review. However, progress in addressing our recommendation is satisfactory given that a tool is in place and some departments have started to complete these self-assessments (Exhibit 2.2).

Exhibit 2.2 Progress in addressing our recommendation on organizational capacity

Recommendation	Progress
Before recommending that the Treasury Board approve an IT project, the Treasury Board Secretariat should • ensure that the departments and agencies submit their analyses of organizational capacity, and • validate the content and approach of these assessments. (Recommendation 3.99 of the 2006 November Report of the Auditor General of Canada, Chapter 3, Large Information Technology Projects)	Satisfactory

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

The Secretariat implemented an action plan, improved its guidance, and improved reporting

2.33 In its 7th report to the House of Commons in 2008, the Public Accounts Committee (PAC) made recommendations based on the results of our 2006 chapter on large IT projects. The government agreed to act on these recommendations.

2.34 PAC recommended that the Secretariat develop an action plan to address our recommendations. The Secretariat submitted its action plan to PAC and has implemented it, including the completion of the Policy Framework for the Management of Assets and Acquired Services and the new Policy on the Management of Projects. It has also made significant improvements to its guidance.

2.35 PAC also recommended that the Secretariat direct departments and agencies to provide financial and performance information in the reports they submit to Parliament on IT projects that are expected to cost over $10 million, including

- original and current estimated total costs,
- costs incurred to date,
- the expected completion date, and
- the intended outcomes.

2.36 In response, departments have included two tables in their 2009–10 departmental performance reports, entitled Status Report on Major Crown/Transformational Projects and Status Report on Projects Operating with Specific Treasury Board Approval.

Progress in key management areas

2.37 This section presents our findings of the progress the government made against the commitments it made to address recommendations in our 2006 Report to Parliament. These commitments related to four key management areas—governance, business cases, organizational capacity, and project risk management. We assessed the progress made since 2006 of four large IT projects: Expenditure Management Information System, Global Case Management System, Integrated Revenue Collections, and Secure Channel. We also reviewed an additional project, the Temporary Resident Biometrics Project, which was implemented since our 2006 audit. Since the Secure Channel project was completed in 2004, we examined only whether defined benefits noted in its business case have been achieved and measured. The project history in Exhibit 2.3 shows that departments have significantly reduced the size and scope of certain projects. For all the projects we reviewed, budgets have increased by approximately $649 million since their inception, and time frames have also increased significantly.

Exhibit 2.3 The size and scope of certain projects have changed significantly

Department or Agency and Project Description	Initial		2006		2010		
	Schedule	Budget	Schedule	Budget[1]	Schedule	Budget[1]	Change in Scope / Deliverables
Treasury Board of Canada Secretariat **Expenditure Management and Information System:** An integrated financial system designed to support all aspects of government expenditure management.	2000–Ongoing	$16.2M	2000–Ongoing	$53.7M	2000–2007	$52.8M $50.5M (actual)	Originally 4 phases. 2 delivered in 2007, and 2 phases deferred indefinitely.
Citizenship and Immigration Canada **Global Case Management System:** A multi-year program to replace Citizenship and Immigration Canada's outdated business systems with an integrated system that will improve all of its client operations in Canada and abroad.	2000–2005	$194.8M	2000–2007	$242.8M	2000–2011	$387M	Scope significantly reduced in 2008, with the remainder of project deferred until after March 2011.
Canada Revenue Agency **Integrated Revenue Collections:** A new system and approach consisting of a series of solutions and tools used to prioritize and allocate collections workloads according to a risk-based approach.	2001–2004	$2.5M	2001–2012	$147M	2001–2014	$144M	Scope clarified and increased significantly.
Public Works and Government Services Canada and Treasury Board of Canada Secretariat **Secure Channel:** A common, secure infrastructure that ensures Canadians can use the Government On-Line single window to conduct online transactions safely and effectively.	1999–2002	$96M	1999–2004	$377M (actual)	N/A	N/A	N/A—Implemented in September 2004.
Citizenship and Immigration Canada **Temporary Resident Biometrics Project:** A project designed to capture fingerprint, photo, and identity information and business processes, to prevent dangerous and inadmissible people from entering Canada.	N/A	N/A	N/A	N/A	2008–2013	$180M	Scope reduced to 25% of target population, based on risk.

[1]Revised costs reflect changes in project's scope

Governance structures remain problematic for two of four projects we examined

2.38 Governance at the project level focuses on delivery of business change at an affordable cost with an acceptable level of risk. Treasury Board policies governing investment planning and projects stipulate that the sponsoring department or agency of an IT investment project is responsible for establishing and controlling the costs and risks and for ensuring that the project benefits the organization and meets a defined business need. The sponsoring department is responsible for ensuring the appropriate capacity will be in place to manage and deliver the proposed project and to show that it is making a sound investment decision—based on objective, unbiased information. A sound governance framework at the project level is critical to fulfilling these responsibilities.

2.39 In 2006, we examined whether the processes departments used to approve and manage seven selected large IT projects increased their likelihood of success. We found that four of the projects had deficient governance frameworks. Even though the governance structure was defined for all projects, we found that not all responsibilities were carried out and not all key business issues were reported and resolved.

2.40 As previously noted, the Treasury Board of Canada Secretariat has put in place new Treasury Board policies and tools to assist departments in approaching IT projects from a business perspective rather than simply a technology perspective. This business perspective would place appropriate attention on planning the project, managing the necessary transition, and involving all key stakeholders. We looked at whether departments have implemented this approach for their projects.

2.41 **Expenditure Management Information System (EMIS).** In 2000, the Secretariat initiated EMIS to replace five legacy systems that were originally created in the mid-1980s to prepare the annual budgetary estimates for Parliament's approval. As we reported in 2006, the project's scope was expanded significantly to include the building of a new comprehensive system that would provide an overall view of the government's financial performance. By 2006, the newly defined project had four phases and its budgeted expenditures had gone from $16.2 million to $53.7 million. In 2007, the Secretariat scrapped the two components it had built between 2000 and 2006 and started over, at a cost of $34.5 million, because the components were found to be unreliable. Since 2007, the Secretariat has completed the first two phases of the project and has deferred indefinitely the last two phases.

2.42 In 2006, we reported that this project had no clear governance and accountability structure in place. As well, there was no monitoring of key performance indicators or status of deliverables. In our current audit, we found that, since 2006, most of the governance weaknesses have been addressed. A clear governance structure was in place, including regular dashboard reporting to a senior steering committee that included financial updates and information on risk and progress. However, we found little evidence that senior management had analyzed the risks and impact of deferring the last two phases indefinitely. Without building the remaining functionalities, the Secretariat will be unable to achieve the overall project's objectives.

2.43 In its 4th report to the House of Commons in 2008, the Public Accounts Committee (PAC) recommended that the Secretariat provide an update on the implementation of EMIS and that it appoint a blue-ribbon panel to examine financial information systems with a goal of improving spending decisions. The government agreed to have the Secretariat report to PAC on the status of EMIS in July 2008. However, when it did, it did not report the full extent of delays in completing the second phase or the possibility of deferring the remaining two phases indefinitely. In lieu of appointing a blue-ribbon panel, the government indicated that the Secretariat would engage external advisers to provide technical and strategic advice on EMIS. We found that the technical advice, related to the subsequent phase of EMIS, was provided and that, more recently, an advisory committee was created to provide strategic advice.

2.44 Recommendation. The Treasury Board of Canada Secretariat should analyze the risks and impact of deferring the last two phases of the Expenditure Management Information System (EMIS) indefinitely and take the necessary action consistent with the Secretariat's priorities and future objectives for the project.

The Secretariat's response. Agreed. The Secretariat will complete the documentation of the decision to cancel the last two phases originally planned for the EMIS project by April 2011. The risks and benefits of the decision have been assessed, and the decision is consistent with the Secretariat's priorities and objectives.

2.45 Global Case Management System (GCMS). In 2000, Citizenship and Immigration Canada (CIC) initiated the GCMS with the business objective of improving security and efficiency in the delivery of immigration and citizenship activities. The GCMS was to replace 14 legacy and aging systems that did not work well together and placed CIC in a position of serious risk. GCMS is based on one integrated

case-management system that provides an end-to-end view of the client continuum from first contact to final disposition. The project's original cost was $195 million, and it was to be completed by 2005.

2.46 In 2006, we found that the project's governance structure was not well established. This was further confirmed by an independent review that was conducted in the same year, which noted that the governance mechanism relied on the efforts of individuals and that the project management office lacked the authority to challenge the state of deliverables. It recommended that a suitable governance process be put in place for both CIC and the Canada Border Services Agency (CBSA) to use GCMS as a shared resource.

2.47 CIC has made progress in addressing weaknesses in the GCMS governance. For example, it has established clear lines of accountability by naming the Assistant Deputy Minister, Corporate Services, as project leader; it has appointed an experienced business director to represent the interests of CIC and CBSA; and a senior interdepartmental committee exercises project oversight through, among other things, the review of executive project dashboards and project summaries, and the monitoring of major issues and risks.

2.48 Since our 2006 audit, we found that CIC significantly improved its ability to pursue the delivery of GCMS, as seen in the current phase of the project, Release 2, which focuses on immigration processing. This phase has received close scrutiny by senior CIC committees and has been reporting regularly on its progress. As well, the deployments to date have been successful. Current project dashboards show that the current phase will be delivered on time and slightly below budget.

2.49 The GCMS business objectives that were first identified in 2000 were reconfirmed in several key documents throughout the life of the project. However, the current phase is set to end on 31 March 2011, and a significant amount of work still remains. CIC has assessed that about 25 to 31 percent of GCMS functionalities will still not be developed. The GCMS work that will remain is mainly related to extending the GCMS capability for domestic enforcement and immigration services at ports of entry and inland offices. As a result, many of the legacy systems that were to be replaced will continue to be used after project closing. For example, the Field Operations Support System (FOSS), a 30-year-old system critical to the National Immigration Program, which is considered high risk due in part to integration issues, will not be decommissioned until the 2015–16 fiscal year.

2.50 Two independent reviews, in 2007 and 2009, recommended that CIC continue to focus on future requirements and that it start planning subsequent phases of GCMS before completing the current phase. As well, in its 2009–2012 IMTB (Information Management and Technologies Branch) Integrated Business and Resource Plan, CIC stated that it would produce a business case and funding proposal for the remaining work. Although discussions have occurred at senior levels, they have not clearly addressed the issue of the outstanding work and its impact on the business objectives. As well, some documents have been initiated but they are still in draft form, have not been approved, and include figures that are not supported with analysis.

2.51 Recommendation. Citizenship and Immigration Canada should prepare a plan to address the costs and risks related to the remaining work to be done after completion of Release 2 of the Global Case Management System (GCMS) in order to achieve the project's overall business objectives.

The Department's response. Agreed. Over time, the implementation of the GCMS project has been adapted to meet the changing business and operational needs of Citizenship and Immigration Canada (CIC). The overall project plan was amended in 2008 to focus on overseas immigration processing. GCMS Release 2 will be successfully delivered worldwide by March 2011, fulfilling the scope of the Major Crown Project. CIC is preparing a five-year Roadmap to achieve its overall business needs, which have evolved since the original business objectives of GCMS were established. As we move forward, we will continue to build on the GCMS platform and address any risks related to the changes to the original scope. The first year of this Roadmap will be funded through the CIC Business Planning and Investment Planning process, and the next deployment is scheduled for summer 2011. As business priorities shift and change quickly, the yearly process of approval will be followed for GCMS over the coming years. A portion of immigration inland processing will be implemented in the Case Processing Centre Mississauga and CIC Etobicoke in March, with minimal IT changes to the system.

2.52 Integrated Revenue Collections (IRC). In 2001, the Canada Revenue Agency (CRA) initiated IRC to help prioritize and allocate collections work according to level of risk. This project had an original budget of $2.5 million with an expected completion date of 2004; however, it did not progress for many years. By fall 2005, senior management decided to put the project on hold while a new business case was developed. By that time, the project had spent $13 million and had few deliverables.

2.53 In 2006, we reported that several measures had been taken to improve the project's governance. For example, the CRA established a new senior committee, the Resource Investment Management Committee (RIMC), in early 2006, to oversee the management and progress of major IT projects, including IRC. This committee is chaired by the Commissioner, and senior executives representing internal stakeholders from other sectors of the Agency are members. Its role is to provide assurance that all resource and investment decisions support and are fully integrated with Agency direction and strategies.

2.54 Since 2006, RIMC has monitored IT projects such as IRC through progress reports and other similar presentations. It also requires project managers to develop a full business case and project sponsors to identify the expected benefits and, after implementation, confirm that they have realized these benefits. Other governance improvements include establishing a project management office and dividing the IRC project into more manageable components.

2.55 **Temporary Resident Biometrics Project.** Led by Citizenship and Immigration Canada (CIC), the biometrics project aims to enhance security by capturing photographs and fingerprints of temporary resident applicants to ensure individuals posing safety and security threats do not gain access to Canada. The project is dependent on multiple stakeholders, including the Canada Border Services Agency (CBSA), which will verify travellers' identities against previous captured biometrics, such as fingerprints, at selected ports of entry. The Royal Canadian Mounted Police (RCMP) will cross-reference fingerprints against criminal records databases as part of its Real-Time Identification (RTID) Project.

2.56 The project is governed by interdepartmental committees composed of senior managers from CIC, the RCMP, and CBSA, as well as representatives from the Secretariat and other departments. These committees meet regularly and provide a forum for members to raise and address issues. Our review of committees' minutes and planning documentation reveals that the biometrics project is a high-risk project that has been in "red status" (meaning that significant course correction may be required) since April 2009, when projects began to maintain dashboards.

2.57 The biometrics project has been in red status for various reasons. First, the project received only a portion of required funding under Budget 2008: $180 million instead of the required $208 million. Second, the project's revised scope, designed to enable delivery for $180 million, was still being finalized in December 2010. Third, the

project is approximately a year behind in receiving approval and issuing a request for proposal. We found that CIC has mechanisms in place to alert senior management and the Secretariat to these problems in a timely manner, and that delivery partners have used this information in their decision to continue with the project.

2.58 **In summary.** We found that overall progress on the departments' efforts to place more attention on planning large IT projects, managing the necessary transition, and involving all key stakeholders has been unsatisfactory; two of the four projects, the Global Case Management System and the Expenditure Management Information System, have significant governance issues (Exhibit 2.4).

Exhibit 2.4 Progress in addressing our recommendation on improving project governance and accountabilities

Recommendation	Progress
Government departments and agencies should improve their internal quality reviews of IT projects. Senior departmental executives should review the key decision documents that are produced to support the IT project and ensure that the analysis is thorough and supportable before signing off on the submission. (Recommendation 3.61 of the 2006 November Report of the Auditor General of Canada, Chapter 3, Large Information Technology Projects)	**Satisfactory (Biometrics, IRC)** **Unsatisfactory (GCMS, EMIS)**

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Most business cases do not clearly identify and measure benefits

2.59 A business case is the foundation for sound investment decisions. For IT projects, the business case explains the rationale for the project and the results that the project is expected to produce to meet an organization's business needs. It also provides an analysis of all the costs, benefits, and risks associated with the proposed investment. Furthermore, the business case must define what constitutes success, which will be used to measure the project's success later on.

2.60 In 2006, we examined seven projects to determine whether departments had clearly defined the business needs they expected to fulfill. We reported that, for five of the projects, the business cases were incomplete, out of date, or contained information that could not be supported. In this audit, we examined whether the business cases have

improved for four of those projects, as well as for the new Temporary Resident Biometrics Project.

2.61 **Expenditure Management Information System (EMIS).** In 2006, we reported several deficiencies in the Expenditure Management Information System's original 2004 business case, notably, that it contained incomplete or unclear business objectives and timelines and did not include an options analysis.

2.62 In 2006, the Secretariat approved a new business case that reduced significantly the scope of this project. The new business case contained a detailed options analysis and it set out clear business goals and measurable performance objectives and planned results, which were measured against actual outcomes. Key stakeholders were involved in the decisions made on the reduced scope, and it was completed on time and within budget.

2.63 In July 2008, the government agreed to provide the Public Accounts Committee (PAC), by the end of 2008, with a close-out report summarizing lessons learned from the original EMIS project; it said in its response that these were taken into account in the planning and delivery of the newly scoped project. The report would indicate how the Secretariat would apply lessons learned, including the deficiencies in the business case that were identified in our 2006 audit. Although the Secretariat has completed this report, it has not provided it to PAC. In addition, the government agreed that it would make project close-out reports, as well as their filing with CIOB, mandatory for all large IT projects. We noted that the Secretariat advised PAC in March 2010 that its project evaluation guidelines indicate that close-out reports are to be prepared within three months of completion of a project. However, the use of these evaluation guidelines is not mandatory.

2.64 **Global Case Management System (GCMS).** In 2006, we reported that, since project initiation in 2000, Citizenship and Immigration Canada (CIC) struggled with a number of issues, including changes in project scope, difficulties accessing funds, a lack of people with the required skills, and delays in procurement. We also found that the original business case did not present a detailed analysis of options and did not quantify the expected business outcomes and benefits. During that time period, the budgeted cost escalated from an original budget of $195 million to $243 million; however, there was no update of the original business case to reflect these significant changes. As a result, the implementation of the citizenship module used most of the original budget of $195 million and took as much time as the whole project had been expected to take.

2.65 CIC issued a revised business case in 2007, which addressed scope and capacity issues and, more specifically, focused on the immigration line of business. It made the case for another budget increase of $144 million for a total of $387 million and a significant reduction of scope. We found that the business case included an improved options analysis; however, it reiterated almost the same expected business benefits as those identified in the original business case in 2000. Again, it did not quantify them to make them ultimately measurable. In January 2008, the Secretariat, in its challenge role, suggested to CIC that it needed to better define the project business benefits and provide measures. However, CIC has not acted on this advice and has not prepared a benefit measurement plan. As a result, it will be difficult for it to provide performance information that shows whether the GCMS will achieve the intended business benefits.

2.66 In 2009, CIC updated the business case again to reconfirm the relevance of the direction taken in 2007. Although it also mentioned the business benefits at a high level, it did not quantify them or define measures. In addition, the significant cost avoidance from the replacement of the 14 disparate legacy systems by one integrated system mentioned in the original business case was no longer mentioned after 2007.

2.67 **Integrated Revenue Collections (IRC).** In 2006, we reported that IRC was one of several projects in which the business case was incomplete and out of date.

2.68 The Canada Revenue Agency prepared a revised business case in 2007 and recommended it for approval by the Resource and Investment Management Committee (RIMC). We found this business case to be complete, with the exception of the section on benefits realization, which required more measurement detail. The main benefit identified in the business case was an estimated $700 million in annual savings from program effectiveness, improved accounts receivable, and revenue collection productivity gains. Of this total, $200 million in annual benefits was specifically identified as the result of the implementation of the first phase of the project, due to be completed by June 2012. However, the business case lacked details on how these results will be achieved and contained no information on the remaining $500 million.

2.69 In late 2009, a benefits measurement plan for Phase 1 was prepared and presented to RIMC for approval. The RIMC did not approve the plan at that time, as the plan did not outline the benefits resulting from the implementation of the first phase of the IRC project.

A revised version has since been prepared and was to be presented to RIMC in December 2010. This revised plan contains more details on how the $200 million in annual gains will be achieved, including benchmark information and data collection. It also provides a timeline of when the project will start to realize the benefits. However, this timeline still lacks details on when this target will be achieved and how progress will be measured. In addition, as a result of a change in investment decisions for the second phase of IRC, the remaining $500 million in annual benefits is no longer applicable and any future benefits are to be defined at each additional phase.

2.70 **Secure Channel.** The Secure Channel is a complex, innovative, multi-departmental project that provides Canadians and businesses with secure and private access to online government services. This common secure infrastructure ensures that Canadians can use a single window to conduct online transactions safely and effectively. In 1999, the Secretariat initiated the Secure Channel and was responsible for its oversight, strategic direction, and decision making. Public Works and Government Services Canada (PWGSC) was responsible for project management and also became responsible for operations in 2004. The project's development had a total cost of $377 million, of which approximately $285 million can be attributed to the development of the authentication (epass) service, one of five main services that the Secure Channel provides. The project's 2005 business case identified benefits and related targets to be achieved over a five-year period, and included projections on the average Internet transaction volumes, and significant cost savings and cost avoidance. As well, the business case identified program administration benefits estimated at $5.2 billion (unaudited), which could not be achieved without this secure infrastructure.

2.71 Since our 2006 audit, the Secretariat has made the use of all the Secure Channel Services mandatory, by amending the Treasury Board Common Services Policy. It did this to ensure that federal departments would have to use Secure Channel services and thus these services could be funded on a cost-recovery basis. The cost of operating the Secure Channel from October 2004 to March 2010 was $483 million. It is estimated that another $134 million will be spent between April 2010 and December 2012. This will bring the total expenditure to $617 million, of which the epass service component is $367 million.

2.72 Human Resources and Skills Development Canada (HRSDC) and Canada Revenue Agency (CRA) programs accounted for over 90 percent of the epass service annual volumes. Because of this, PWGSC required that they make binding commitments on the number of projected transactions and used these to calculate the

amount that each department would be required to pay on a yearly basis. These costs were binding and payable whether or not HRSDC or CRA achieved their projected transaction volume levels.

2.73 The HRSDC My Service Canada Account (MSCA) started using the epass service in November 2006. Soon after, it started to encounter performance and system availability issues during periods of high transaction volumes. As a result, HRSDC stopped using the epass service for its MSCA in February 2007. The MSCA generates, on average, 12 million transactions annually. PWGSC indicated that it had addressed these issues by August 2007 and formally advised HRSDC in February 2008. HRSDC then reintegrated the MSCA in May 2008 when service disruption to Canadians would be kept to a minimum.

2.74 In its initial letter of intent in November 2006, CRA indicated its concern that the cost of the epass service was substantially more than its costs to operate and maintain its own in-house solution that met its security and operational requirements. Furthermore, when determining its service volume commitments in 2006, CRA decided to exclude electronically filed tax returns, which generate, on average, 12 million transactions annually, as including them was not cost effective. The Agency has recently built an in-house service that provides it with a different level of security and privacy that meets its requirements. CRA stopped using the epass service as of October 2010.

2.75 In early 2007, the Secretariat approved a revised Secure Channel business case. This business case focused on the technical business requirements, such as security and privacy, timely availability, a single window, and interoperability between departments, programs, and services. The business case also indicated that there would be operational benefits related to departmental take-up and transaction volumes, as well as financial benefits consisting of cost savings and cost avoidance.

2.76 The 2007 business case does not identify specific measures, timelines, and targets for the technical requirements or operational and financial benefits. This is in sharp contrast to the previous business case in 2005, which identified the business benefits with specific targets and measures. Finally, there is no benefit measurement plan and no indication of who would be responsible for measuring benefits. Given the experience with the two largest user departments on its most significant service offering, it would have been important to clearly indicate in the new business case a target take-up rate or the level of financial benefits expected to be achieved.

2.77 The Secretariat's Chief Information Officer Branch (CIOB) is currently considering a new strategy for the provision of authentication services to departments and agencies after the current epass service contract ends in December 2012. As part of this review, the CIOB has acknowledged that the current epass single architecture, with the bundling of security services, resulted in a solution set that was perceived to be excessive and too costly for most applications and that the take-up by departments was not achieved as originally estimated. The CIOB has developed a new business case that outlines options and cost estimates for a more flexible authentication solution for departments and agencies.

2.78 In its 7th report to the House of Commons in 2008, the Public Accounts Committee recommended that PWGSC conduct a cost-benefit analysis of the continued use of Secure Channel by 31 December 2008, and that PWGSC also provide meaningful results-based information in its annual departmental performance report (DPR). In June 2009, the government agreed to both recommendations and provided the Committee with its SC/EPASS Evolution Analysis Report, which gives an update on progress with regards to cost recovery of all Secure Channel services. PWGSC has also provided on an annual basis a number of performance measures relating to the usage of the Secure Channel epass service in its DPR.

2.79 We reviewed these performance measures and found they included the number of programs and departments using the service, transaction volumes, per transaction cost, and capacity use, as well as the number of epasses issued to businesses and Canadian individuals. However, these measures lacked context. There were no targets against which this information can be compared to assess performance. For example, the last report stated that 8.2 million epasses have been issued to date. This was represented as showing that Secure Channel has achieved full capacity. We note that there is no discussion of how this compares with the architectured capacity of 30 million epasses. In addition, the actual number of transactions between April 2007 and December 2009 of 47.9 million was not compared with the minimum transaction volume commitment of 93 million made for that period. As well, this information was not compared against the annual estimated capacity of 45 million transactions per year, which an independent review in 2005 had stated was needed for the epass service to be cost effective. It is difficult to properly assess the performance of the Secure Channel service without meaningful comparisons against plans and targets.

2.80 Temporary Resident Biometrics Project. Citizenship and Immigration Canada estimated the initial cost for implementing the biometrics project, including the CBSA and RCMP components and interfaces, at $208 million. However, we note that the 2008 Budget did not provide most of the funding for the CBSA component and approved funding of only $180 million. Because of this funding shortfall, CBSA indicated that it would not be able to complete some of its development activities and would have difficulty supporting ongoing operations of fingerprint enrolment and systematic verification at all ports of entry. The biometrics project's 2009 business case took into account the reduced funding; however, it did not clearly articulate what functionalities would be reduced and what benefits would not be realized.

2.81 In spring 2010, CIC made a strategic change to its service delivery model, based on lessons learned from other jurisdictions. This changed the project costs significantly as it was going from a user-pay model to one where the Government of Canada enters into contracts with third-party service providers and pays for the service. While this approach enhanced oversight and control, it also shifted the financial burden from applicants to the Government of Canada.

2.82 Because of the revised funding method and change in strategic direction, CIC developed a new business case in September 2010, proposing a reduced-scope option for the project. Under this option, CBSA will be conducting only discretionary fingerprint verification at selected ports of entry. This reduced scope option was still being finalized in December 2010.

2.83 We found that the September 2010 business case contains well-defined objectives and an options analysis, and represents an effort on the part of CIC to develop a viable and focused scope for the project where deliverables can be achieved. The project team has also begun to develop a framework for monitoring performance. While the framework does not contain performance targets or timelines, it does include key performance indicators, data sources, and mechanisms for reporting performance.

2.84 In summary. The Secretariat has met its commitments and developed and published business guidance to be used by departments in preparing their business cases (paragraph 2.22 and Exhibit 2.1). However, we found that three of the five projects we examined in this audit—GCMS, IRC, and Secure Channel—continue to have deficiencies regarding identification and measurement of benefits (Exhibit 2.5).

Exhibit 2.5 Progress in addressing our recommendation on business cases

Recommendation	Progress
Before seeking effective project approval, departments and agencies should prepare a business case that includes, at a minimum, precise and measurable objectives; a full analysis of options, benefits, costs, and risks; and an implementation plan.	**Satisfactory (EMIS, Biometrics)**
(see Recommendation 3.89 of the 2006 November Report of the Auditor General of Canada, Chapter 3, Large Information Technology Projects)	**Unsatisfactory (GCMS, IRC, SC)**

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

2.85 **Recommendation.** When departments and agencies develop a business case, they should include a benefit measurement plan that

- contains specific quantifiable benefits including clear benchmarks,
- assigns responsibilities for delivering identified benefits, and
- includes a process for measuring and reporting benefits.

The Canada Revenue Agency's (CRA's) response. Agreed. The Agency believes that since the end of the audit (31 October 2010) it has addressed the recommendation in the following manner:

As noted by the Auditor General, a benefits measurement plan for Integrated Revenue Collections (IRC) Phase 1 had been completed by the CRA in 2009. The benefits measurement plan for IRC Phase 1 was further refined in 2010 to reflect annual gains to be achieved, benchmark information, and a data collection strategy, including when benefits would start to be realized, and who would be responsible for the delivery of the identified benefits. The 2010 revised plan was recently approved and work is ongoing in respect of measuring and reporting on the benefits. In fact, the approval process in place at the Agency requires that a benefits realization plan be prepared as part of business cases for large IT-enabled projects, which is an established best practice.

Citizenship and Immigration Canada's (CIC's) response. Agreed. Future projects will leverage the CIC Performance Measurement Framework and Operational Baselining Strategy in order to quantify, measure, and report on benefits.

Public Works and Government Services Canada's (PWGSC's) response. Agreed. PWGSC is committed to adhering to applicable Treasury Board policies, as well as Treasury Board of Canada Secretariat Chief Information Officer Branch guidelines and standards on the development of business cases. In cases where PWGSC is responsible for the implementation of large, horizontal IT projects with government-wide or multi-departmental impacts, the Department will continue to work cooperatively with the Secretariat and client departments to develop business cases that clearly assign accountabilities for benefit measurement plans and for tracking and reporting of benefits where applicable and justified.

Most of the large IT projects we audited have taken steps to address capacity issues

2.86 Organizational capacity refers to the technical and managerial ability to deliver an IT project. It also refers to the ability of the entire organization to improve the way it does business by using all of a system's capabilities.

2.87 In 2006, we examined whether, for the seven projects we selected, departments and agencies had clearly demonstrated that their organization was ready to accept the business transformation that came with the project and whether they had the capability and commitment to successfully deliver the project. We reported that four of the departments lacked the appropriate skills and experience to manage the projects or the capacity to use the system to improve the way they deliver their programs.

2.88 The Secretariat committed to develop and implement an Organizational Project Management Capacity Assessment Tool and a "Project Complexity and Risk Assessment Tool" to assist departments to better understand their capacity to manage projects and to better ascertain the level of risk and complexity of proposed projects (paragraph 2.32). We examined whether the projects included in this audit took steps to improve their organizational capacity with, among other things, the use of these tools.

2.89 Expenditure Management Information System (EMIS). EMIS was designed to support all aspects of government expenditure management by providing information on the cost of meeting the government's priorities and achieving particular results. The favoured delivery approach was through an in-house system development.

2.90 After spending over $34 million on this project since its inception in 2000, the Treasury Board of Canada Secretariat realized that the project had to be re-scoped to accommodate capacity issues and to adopt a more widely applied technology. There was also a need to substantially reduce the risks associated with human resource issues, both within the Secretariat and from professional services contracts. We found that business stakeholders were consulted; however, the Secretariat did not prepare an organizational capacity assessment prior to revising the project deliverables after 2006.

2.91 **Global Case Management System (GCMS).** In 2006, we reported that the GCMS's organizational capacity was deficient. The project had experienced untimely shortages of key resources, and Citizenship and Immigration Canada had no previous experience in developing and implementing a project of a similar size and complexity. Since then, CIC has assessed its capacity to deliver such a project through independent reviews and internal audits. Also, it has produced plans for business preparation, transition, and operational phases. Moreover, instead of attempting to deliver the project as a whole in one implementation, the Department adopted a phased approach to implementing GCMS. This approach has provided the organization with greater capacity to implement and manage the change.

2.92 **Integrated Revenue Collections (IRC).** Since our 2006 audit, the Canada Revenue Agency has had to address certain organizational capacity issues. In 2006, the Agency prepared initial staff resource plans and staffing concerns were discussed at senior committees. As a result, CRA included in the 2007 business case a new human resource strategy concentrating on project challenges related to capacity and availability of expert resources. This helped CRA address the resource shortfall previously identified.

2.93 **Temporary Resident Biometrics Project.** In June 2009, an independent review of the biometrics project recommended that the project team strengthen its project management expertise. The project team hired two directors to address this gap. As well, in response to weaknesses identified in the Organizational Project Management Capacity Assessment completed in October 2009, the project team took steps to define and group the discrete elements for the project, to better describe deliverables and identify tasks required to complete them. In August and September 2010, the project team took further steps to determine whether Citizenship and Immigration Canada had the right mix and appropriate number of people to ensure effective implementation. The Department has not yet approved the project's human resource management plan.

2.94 **In summary.** We found that for three of the four projects included in this portion of the audit, progress on improving organizational capacity was satisfactory. EMIS did not assess organizational capacity as required (Exhibit 2.6).

Exhibit 2.6 Progress in addressing our recommendation on organizational capacity

Recommendation	Progress
At the start of a project, departments and agencies should clearly demonstrate that their organization is ready to accept the business transformation that comes with the project and has the capability and commitment to successfully deliver the project. Specifically, departments and agencies should analyze their track record in • completing projects of similar size and complexity; • completing skills appraisals and plans to address shortfalls; • planning for business preparation, transition, and operational phases; and • considering key stakeholder buy-in and commitment. (Recommendation 3.98 of the 2006 November Report of the Auditor General of Canada, Chapter 3, Large Information Technology Projects)	Satisfactory (GCMS, IRC Biometrics) Unsatisfactory (EMIS)

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Most of the large IT projects we audited have taken steps to address project risk management issues

2.95 Sound project management ensures that projects produce successful outcomes, within a specified time. A key component of project management is effective risk management, which involves assessing the potential impact of risks, continuously monitoring the risks, and dealing with potential risks before they arise.

2.96 In 2006, we found that the quality of project risk management varied widely from project to project—from good to seriously flawed. Although we found that four of the seven projects we audited were well managed, the quality of project risk management varied widely. Those with weak project management practices experienced long delays and large cost overruns.

2.97 The Secretariat developed a Project Complexity and Risk Assessment Tool that includes an assessment of how departments manage project risks. None of the projects we examined in this audit

were subjected to this tool because departments have until April 2012 to implement it.

2.98 **Expenditure Management Information System (EMIS).** EMIS has successfully completed two of its four phases on time and within budget. We observed that project risks had been adequately managed. For example, the project's 2006 Business Case Risk Management Plan indicated preliminary identified risks, including, for each risk, probability of occurrence, impact, severity, and risk response (risk mitigation).

2.99 Risk information, such as executive project dashboards, was regularly reported to the EMIS Steering Committee. All risks related to the first two phases of the project were addressed.

2.100 **Global Case Management System (GCMS).** For the current phase of GCMS, ending on 31 March 2011, Citizenship and Immigration Canada has a risk management approach in place, consisting mainly of a risk register capturing major existing, anticipated, and emerging risks that are assigned to a specific owner and analyzed by likelihood and impact.

2.101 The risk register contains action plans and status updates and is reviewed on a regular basis by the Senior Review Board. However, the risks related to the work that remains after this phase is complete have not been documented (paragraph 2.49).

2.102 **Integrated Revenue Collections (IRC).** We reviewed the risks identified in the risk management framework document for the IRC project. We selected specific risks initially recorded in both the 2006 and 2007 business cases, and assessed how these were being managed. We found that the Canada Revenue Agency has implemented a formal assurance process for assessing the adequacy of its risk management. In addition, regular progress reports that include summary information on the status of current project risks are submitted to the Resource Investment Management Committee for review and feedback.

2.103 **Temporary Resident Biometrics Project.** Given that the biometrics project is complex and high risk, mechanisms for identifying, assigning ownership of, addressing, and communicating risks to partners are essential. We found that the biometrics project has mechanisms for identifying and assigning ownership of risks, including a risk register and an issue-tracking log, and that it communicates these risks through its governance structure.

2.104 However, we found weaknesses in the project's mechanisms for addressing risks and analyzing their impacts in a comprehensive manner. For example, we found that, while delivery partners were first

made aware of the project's key risk—delays in the RCMP Real-Time Identification (RTID) project—in April 2009, the project team did not develop a contingency plan until November 2010. We found that this contingency plan provides a general overview of costs and options, but does not provide specific details on how the project team would implement each option. This gap is problematic, because the timely implementation of the RTID project, which was on hold in May 2010, is critical to the successful implementation of the biometrics project. Without a functioning RTID, Citizenship and Immigration Canada will not be in a position to assess criminality to ensure applicants posing a risk to the safety and security of Canada are denied entry.

2.105 We also found that the project team had to redevelop key planning documents due to the funding shortfall and changes to scope, and is now experiencing delays of about a year as a result. However, the project team has not analyzed the impacts of these delays in a comprehensive manner. Given these developments, the project team's ability to deliver on the March 2013 implementation date is at risk.

2.106 **In summary.** We found that overall progress on the implementation of risk management for the projects we reviewed has been satisfactory, although progress is unsatisfactory for the Temporary Resident Biometrics Project (Exhibit 2.7).

Exhibit 2.7 Progress in addressing our recommendation on project risk management and reporting

Recommendation	Progress
Departments and agencies should • comply with the Treasury Board Secretariat project management guidance, • closely manage the project risks, • monitor key success factors, and • regularly report to management any significant internal or external event that may prevent the expected project benefits or result in cost overruns or in the project not being delivered on time. (Recommendation 3.111 of the 2006 November Report of the Auditor General of Canada, Chapter 3, Large Information Technology Projects)	**Satisfactory (GCMS, IRC, EMIS)** **Unsatisfactory (Biometrics)**

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Conclusion

2.107 Overall, the government's progress on its commitments to our 2006 recommendations is unsatisfactory (Exhibit 2.8). In the area of project governance, two of the four projects we examined (the Expenditure Management Information System and the Global Case Management System) have had important deliverables deferred without full analysis of the impact, costs, and risks of not completing these projects. In the area of business cases, three of the five projects we examined (the Global Case Management System, Integrated Revenue Collections, and Secure Channel) have not quantified benefits to be achieved or measured them.

2.108 As illustrated in Exhibit 2.8, progress has been satisfactory in the areas of organizational capacity and project risk management. We found that three of the four projects we audited have adequately assessed their technical and managerial ability to deliver the project. We also found that three of the four projects we audited have properly assessed and monitored the potential impacts of risks.

2.109 The Treasury Board of Canada Secretariat's work in reviewing and challenging large IT projects before they are submitted to Treasury Board for approval has improved their likelihood of success. The Secretariat's Chief Information Officer Branch has also established several monitoring mechanisms to assess the health of the government's portfolio of large IT projects since our last audit. However, it is too early

Exhibit 2.8 Overall progress against our recommendations for the projects

Project	Governance	Business Cases	Organizational Capacity	Project Risk Management
Expenditure Management Information System	Unsatisfactory	Satisfactory	Unsatisfactory	Satisfactory
Global Case Management System	Unsatisfactory	Unsatisfactory	Satisfactory	Satisfactory
Integrated Revenue Collections	Satisfactory	Unsatisfactory	Satisfactory	Satisfactory
Secure Channel	N/A	Unsatisfactory	N/A	N/A
Temporary Resident Biometrics Project	Satisfactory	Satisfactory	Satisfactory	Unsatisfactory
Overall Rating by Management Area	**Unsatisfactory**	**Unsatisfactory**	**Satisfactory**	**Satisfactory**

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

to assess the results of the monitoring activity because the Chief Information Officer has only recently (September 2010) provided the assessment to the Treasury Board ministers for their consideration.

The Secretariat has responded. While the Treasury Board of Canada Secretariat accepts the findings of the audit, the Secretariat is of the view that the overall characterization of the government's progress on the management of large IT projects as "unsatisfactory" is not warranted. On balance, the Secretariat would find that overall progress is indeed "satisfactory," given the actions taken by the Secretariat related to its policy leadership role and the findings related to the individual IT projects reviewed. The difference of views on the overall rating rests on the weight the Secretariat would accord to the actions presented in this report, which the OAG has found as largely "satisfactory."

About the Audit

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Objectives

The objective of our audit was to determine whether the selected departments and agencies have made satisfactory progress in implementing the recommendations related to the November 2006 Report, Chapter 3, Large Information Technology Projects.

Scope and approach

We examined the Treasury Board of Canada Secretariat's role in challenging large IT projects and supporting Treasury Board ministers' oversight, as well as its provision of guidance to departments on effective management and oversight of their IT projects.

We also examined four projects that did not meet all of our audit criteria in the 2006 chapter and we selected one additional project that was approved since our last audit. The projects selected are with the following entities: Canada Revenue Agency, Citizenship and Immigration Canada, Public Works and Government Services Canada, and the Treasury Board of Canada Secretariat.

We also reviewed actions taken in relation to the government's commitments in response to the recommendations the Parliamentary Standing Committee on Public Accounts made in its 7th and 4th reports to the House of Commons on 25 February 2008 that were relevant to issues within our audit scope.

Criteria

To determine whether the Treasury Board of Canada Secretariat, in its role, is challenging large IT projects and supporting Treasury Board ministers' oversight, we used the following criteria:

Criteria	Sources
The Secretariat has an adequate governance framework for the government-wide portfolio of large IT investments under development.	Policy on Management of Information Technology, section 6.1.4, Treasury Board, 2007
The Secretariat has set a government-wide strategic direction for the management of large IT projects.	• Policy on Management of Information Technology, section 8, Treasury Board, 2007 • Directive on Management of Information Technology, section 8.1.2, Treasury Board, 2009
The Secretariat has adequate systems and practices in place to support the successful delivery of large IT projects	Policy on the Management of Projects, sections 1.3 and 5.1, Treasury Board, 2009

The Secretariat has adequately challenged and monitored departmental compliance with its policies, directives, and standards regarding investment plans and project submissions for large IT projects.	Project Management Policy (Monitoring), Treasury Board, 2007
The Secretariat and, more specifically, the Chief Information Officer Branch has in place measures to monitor and report on large IT projects.	• Project Management Policy (Monitoring), Treasury Board, 2007 • IT Project Review and Oversight, Treasury Board of Canada Secretariat Chief Information Officer Branch

To determine whether the selected entities have adequate project governance and oversight mechanisms in place for their IT projects, we used the following criteria:

Criteria	Sources
The selected entities have adequate large IT project governance and oversight mechanisms in place that are documented and maintained.	• Policy on the Management of Projects, section 6.1.1, Treasury Board, 2009 • COBIT PO10.3 Project Management Approach
The selected entities have adequately defined the key roles and responsibilities of the key personnel responsible for the selected large IT projects.	• COBIT PO10.3 Project Management Approach • Val IT IM5 Develop the detailed candidate project business case
The selected entities have in place adequate procedures for monitoring and reporting on the selected large IT projects.	• Policy on the Management of Projects, section 6.2, Treasury Board, 2009 • COBIT PO10.13 Project Performance Measurement, Reporting and Monitoring
The selected entities have adequate management plans in place that define, measure, and monitor the realization of benefits for the large IT projects selected.	• Policy on the Management of Projects, section 6.2, Treasury Board, 2009 • Val IT IM4 Develop full life-cycle costs and benefits
The selected entities have included the key stakeholders of the large IT projects in their communication plan.	COBIT PO6.5 Communication of IT Objectives and Direction

To determine whether the selected entities have a business case that includes at a minimum: definition of project scope, option analysis, deliverables, investment cost, risk analysis, definition of success criteria, and the alignment of the IT project with the overall organization strategy for large IT projects, we used the following criteria:

Criteria	Sources
The selected entities have adequately defined the business goals for their large IT project and how the project will deliver on them.	Business Case Guide, section 1.1.2, Business Need, Treasury Board of Canada Secretariat
The selected entities have identified and measured the critical success factors for each large IT project.	Business Case Guide, section 1.1.4, Business Outcomes, Treasury Board of Canada Secretariat
The selected entities have involved the key stakeholders for their large IT projects in the decision-making process.	Business Case Guide, sections 1.4.2: Stakeholder Analysis, and 2.2, List of Possible Options, Treasury Board of Canada Secretariat
The selected entities have prepared an adequate options analysis case for their large IT project.	Business Case Guide, section 2, Preliminary Options Analysis, Treasury Board of Canada Secretariat

To determine whether the selected entities have a skilled and experienced project management team with leadership, capability, and commitment to deliver the IT project with success, we used the following criteria:	
Criteria	**Sources**
Each selected entity has done an adequate assessment of its capacity to deliver its large IT project.	Standard for Organizational Project Management Capacity, Treasury Board of Canada Secretariat
Each selected entity has adequate human resources available to implement its large IT project.	• Standard for Organizational Project Management Capacity, Treasury Board of Canada Secretariat • COBIT PO10.8 Project Resources

To determine whether the selected entities have project management practices that are based on risk management, we used the following criteria:	
Criteria	**Sources**
Each selected entity has an adequate process to identify, assess, and assign responsibility for and monitor current and emerging risks for their large IT projects.	• Integrated Risk Management Framework, Element 3: Practising Integrated Risk Management, Treasury Board of Canada Secretariat • COBIT PO10.9 Project Risk Management
Each selected entity has kept their risk management plans up to date for their large IT projects.	COBIT PO10.9 Project Risk Management
Each selected entity has in place an adequate process for managing and monitoring progress and changes to requirements that is based on a risk analysis.	Integrated Risk Management Framework, Element 3: Practising Integrated Risk Management, Treasury Board of Canada Secretariat
Each selected entity has an adequate project re-justification at each major checkpoint (stage) for their large IT project that takes into account risk-based changes in the business strategy, scope, and objectives.	COBIT PO10.6 Project Phase Initiation
Each selected entity has a third-party assurance process for assessing the adequacy of risk management for their large IT project.	COBIT ME4.7 Independent Assurance

Management reviewed and accepted the suitability of the criteria used in the audit.

Period covered by the audit

The audit covered the period between November 2006 and October 2010. However, some documents reviewed go back to 2000. Audit work for this chapter was substantially completed on 29 October 2010.

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Appendix List of recommendations

The following is a list of recommendations found in Chapter 2. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
Progress in key management areas	
2.44 The Treasury Board of Canada Secretariat should analyze the risks and impact of deferring the last two phases of the Expenditure Management Information System (EMIS) indefinitely and take the necessary action consistent with the Secretariat's priorities and future objectives for the project. **(2.38–2.43)**	**The Secretariat's response.** Agreed. The Secretariat will complete the documentation of the decision to cancel the last two phases originally planned for the EMIS project by April 2011. The risks and benefits of the decision have been assessed, and the decision is consistent with the Secretariat's priorities and objectives.
2.51 Citizenship and Immigration Canada should prepare a plan to address the costs and risks related to the remaining work to be done after completion of Release 2 of the Global Case Management System (GCMS) in order to achieve the project's overall business objectives. **(2.45–2.50)**	**The Department's response.** Agreed. Over time, the implementation of the GCMS project has been adapted to meet the changing business and operational needs of Citizenship and Immigration Canada (CIC). The overall project plan was amended in 2008 to focus on overseas immigration processing. GCMS Release 2 will be successfully delivered worldwide by March 2011, fulfilling the scope of the Major Crown Project. CIC is preparing a five-year Roadmap to achieve its overall business needs, which have evolved since the original business objectives of GCMS were established. As we move forward, we will continue to build on the GCMS platform and address any risks related to the changes to the original scope. The first year of this Roadmap will be funded through the CIC Business Planning and Investment Planning process, and the next deployment is scheduled for summer 2011. As business priorities shift and change quickly, the yearly process of approval will be followed for GCMS over the coming years. A portion of immigration inland processing will be implemented in the Case Processing Centre Mississauga and CIC Etobicoke in March, with minimal IT changes to the system.

Recommendation	Response
2.85 When departments and agencies develop a business case, they should include a benefit measurement plan that • contains specific quantifiable benefits including clear benchmarks, • assigns responsibilities for delivering identified benefits, and • includes a process for measuring and reporting benefits. (2.59–2.84)	**The Canada Revenue Agency's (CRA's) response.** Agreed. The Agency believes that since the end of the audit (31 October 2010) it has addressed the recommendation in the following manner: As noted by the Auditor General, a benefits measurement plan for Integrated Revenue Collections (IRC) Phase 1 had been completed by the CRA in 2009. The benefits measurement plan for IRC Phase 1 was further refined in 2010 to reflect annual gains to be achieved, benchmark information, and a data collection strategy, including when benefits would start to be realized, and who would be responsible for the delivery of the identified benefits. The 2010 revised plan was recently approved and work is ongoing in respect of measuring and reporting on the benefits. In fact, the approval process in place at the Agency requires that a benefits realization plan be prepared as part of business cases for large IT-enabled projects, which is an established best practice. **Citizenship and Immigration Canada's (CIC's) response.** Agreed. Future projects will leverage the CIC Performance Measurement Framework and Operational Baselining Strategy in order to quantify, measure, and report on benefits. **Public Works and Government Services Canada's (PWGSC's) response.** Agreed. PWGSC is committed to adhering to applicable Treasury Board policies, as well as Treasury Board of Canada Secretariat Chief Information Officer Branch guidelines and standards on the development of business cases. In cases where PWGSC is responsible for the implementation of large, horizontal IT projects with government-wide or multi-departmental impacts, the Department will continue to work cooperatively with the Secretariat and client departments to develop business cases that clearly assign accountabilities for benefit measurement plans and for tracking and reporting of benefits where applicable and justified.

Status Report of the Auditor General of Canada to the House of Commons—2011

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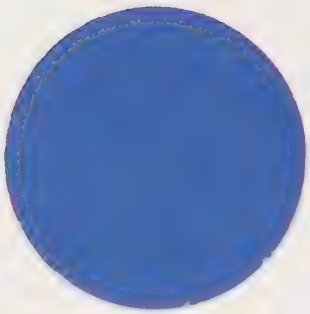
2011



Status Report
of the Auditor General of Canada to the House of Commons

Chapter 3
Internal Audit

Office of the Auditor General of Canada



2011



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Auditor General of Canada
to the House of Commons

Chapter 3
Internal Audit

Office of the Auditor General of Canada

The 2011 Status Report of the Auditor General of Canada comprises Matters of Special Importance, Main Points—Chapters 1 to 6, an appendix, and seven chapters. The main table of contents for the Report is found at the end of this publication.



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Chapter

3

Internal Audit

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Internal Audit

Main Points

What we examined

In November 2004, we reported considerable variation among six federal organizations in the extent to which their internal audit activity met the international standards for the professional practice of internal auditing issued by the Institute of Internal Auditors. We also reported the extent to which they complied with the Treasury Board Policy on Internal Audit. We found that the Treasury Board of Canada Secretariat had yet to establish and fund a strategy that would enable it to meet the requirements of the Policy and the expectations of the internal audit community. We made a number of recommendations aimed at improving the quality of internal audit across government.

Our 2004 report noted that, effective 1 June 2004, the government had re-established the Office of the Comptroller General to strengthen comptrollership and oversight across the federal government. The Comptroller General's key duties included setting or reviewing internal auditing standards and policies of the Government of Canada, providing leadership to ensure and enforce appropriate internal controls, and promoting sound resource stewardship at all levels across the federal government.

For this status report, we examined the extent of progress made by the government in acting upon the commitments it made in response to the observations and recommendations of our 2004 report. We looked at whether independent audit committees had been established in the 24 largest departments and agencies that represent about 95 percent of the government's total assets, liabilities, revenues, and expenses. We assessed the practices and procedures used by a sample of internal audit activities. We also looked at whether the Office of the Comptroller General provided appropriate oversight and guidance to the internal audit activity in departments.

Audit work for this chapter was substantially completed on 28 November 2010.

Why it's important

Internal audit is an important element of good governance. An effective internal audit activity can provide senior management with

objective, independent assurance that the organization's financial, administrative, and operational controls and management practices are effective. It can also suggest improvements that may be needed.

What we found

- The government has made satisfactory progress in acting upon the commitments it made in response to the observations and recommendations of our 2004 audit.
- Independent departmental audit committees have been established in the 24 large departments; the majority of their members are from outside the federal public administration and have the collective skills and experience required to provide deputy heads of departments with objective advice and recommendations. Departmental audit committees are at varying stages in developing their practices and procedures. Some committees have been in effect for three years and others less than one year. We noted that the Canada Revenue Agency established its audit committee in 1999. We have also noted the positive impact that established departmental audit committees are having in contributing to stronger internal audit in government.
- The government has strengthened its internal audit capacity since our last audit in 2004. While few internal audit activities in departments have undergone an external quality assessment review, our own review of a sample of internal audit activities found that they generally or partially conformed to policy requirements and to the standards of the Institute of Internal Auditors. Internal audit reports we reviewed met those standards and requirements. We noted that the strong senior management support for internal audit, coupled with the impact of departmental audit committees has been accompanied by a strengthened internal audit capacity. Senior management has indicated that it has a greater appreciation of the role that internal audit can and should play within an organization.
- The Office of the Comptroller General has provided direction and guidance to the internal audit and departmental audit committee communities through the establishment of a sound policy framework and related guidance. We noted, for example, orientation material that included roles, responsibilities, and expectations of audit committee members. The Office of the Comptroller General has also developed tools and guidance for the internal audit community, such as risk-based audit plans and guidance on core controls.

The entities have responded. The entities agree with our recommendation. Their detailed responses follow the recommendation in the chapter.

Introduction

Internal audit activity—A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organization's operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

3.1 An effective **internal audit activity** is a fundamental component of strong governance. It can provide senior management and audit committees with assurances that key financial, administrative, and operational activities, and the organization's management practices, are efficient and effective. An internal audit can also suggest ways to improve these activities and practices.

3.2 Internal audit is one of several ways that an organization may assess and oversee management practices and find out whether the organization is achieving its objectives. Other ways include program evaluation, studies, and monitoring whether the organization's practices are adequate and effective.

Independence—The freedom from conditions that threaten objectivity or the appearance of objectivity. Such threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.

Objectivity—An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires internal auditors not to subordinate their judgment on audit matters to others.

Internal auditing—An independent, objective assurance and consulting activity designed to add value and improve an organization's operations. Internal auditing helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes.

3.3 The attributes of **independence** and **objectivity** distinguish **internal auditing** from other activities within an organization that review internal practices.

3.4 The Treasury Board Policy on Internal Audit (the Policy) gives the guidelines for internal audit activities that departments are to follow. Roles and responsibilities for implementing the Policy are summarized in Exhibit 3.1.

3.5 The Canada Revenue Agency, which was included in this audit, is structured differently than the other entities. The Agency was established as a separate agency on 1 November 1999. Enabling legislation provided for the establishment of a Board of Management to oversee the organization and administration of the Agency. The Board comprises external members who are independent of the Agency. The Board's structure includes an audit committee whose mandate is to provide oversight of the internal audit activity. The *Canada Revenue Agency Act* provides the legislative authority for the Internal Audit Policy of the Agency, which is approved by the Board of Management. While not subject to the requirements of Treasury Board policies, the Agency aims to respect their intent.

Exhibit 3.1 Roles and responsibilities for implementing the Policy on Internal Audit

Who	Roles and responsibilities
Deputy heads	• Establish an internal audit activity that is appropriately resourced and that operates in keeping with the Policy and with the Institute of Internal Auditors (IIA) Standards. • Form an independent departmental audit committee, where a majority of members are from outside the federal public administration. • Appoint a qualified chief audit executive at a senior executive level to lead and direct the internal audit activity. The chief audit executive reports directly to the deputy head. • Approve a departmental internal audit plan that addresses all areas of higher risk and significance, including audits the Comptroller General has identified as part of government-wide or sectoral coverage. This plan is to be designed to support an annual opinion from the chief audit executive on departmental risk management, control, and governance processes. • Ensure appropriate internal audit coverage for special operating agencies and other entities within their departments and under their control.
Departmental audit committees	As part of their mandate, committees review and report on those areas of responsibility that the deputy head has chosen in that year's risk-guided focus. The overall areas of responsibility are • to review management's arrangements to promote public service values and ethics and to ensure that the department complies with laws, regulations, policies, and standards of conduct; • to review the corporate risk profile and the department's risk management arrangements; • to assess the internal audit activity; • to review the work of the Office of the Auditor General and other agents of Parliament and central agencies; • to review follow-up on management action plans; • to review financial statements and Public Accounts of Canada reporting; and • to review risk and accountability reporting.

Exhibit 3.1 Roles and responsibilities for implementing the Policy on Internal Audit (continued)

Who	Roles and responsibilities
Chief audit executives	• Provide annual opinions to deputy heads and departmental audit committees on the effectiveness and adequacy of risk management, control, and governance processes in their departments, and report on individual risk-based audits. • Create appropriate policies and procedures to guide the internal audit activity. • Create a risk-based audit plan. • Ensure that the internal audit activity has the number of qualified staff it needs to carry out the risk-based audit plan, in keeping with the IIA Standards. • Ensure that the work of the internal audit activity is carried out in keeping with the IIA Standards. • Ensure that the departmental audit committee receives the information it needs to carry out its responsibilities.
Office of the Comptroller General	• Is responsible for horizontal and sectoral audits in large and small departments and agencies; • Is responsible for focused, sustained functional leadership of internal audit across government to build and develop capacity; to ensure adequate levels of professionally qualified staff; and to ensure that departments maintain professional standards and rigorous methodology in delivering internal audits; • Reports periodically to Treasury Board on the state of risk management, control, and governance processes across government; these reports address fundamental controls, including basic reporting controls for financial statements, thematic or sectoral controls, and the results of risk-based internal audit work done within departments; • Provides strategic direction, leadership, advice, and assistance on issues related to internal audit; • Develops and updates relevant policies, directives, guidelines, and standards for internal audit; • Provides policy guidance and interpretation to departments and agencies on how to implement relevant policies, directives, guidelines, and standards; and • Monitors how relevant policies are implemented and whether policy objectives are being achieved.

Sources: Treasury Board Policy on Internal Audit; Treasury Board Directive on Departmental Audit Committees; Treasury Board Guidelines on the Expected Qualifications for Chief Audit Executives; Treasury Board Guidelines on the Responsibilities of Chief Audit Executives; and the Institute of Internal Auditors International Professional Practices Framework

What we found in 2004

3.6 We last carried out a government-wide assessment of internal audit in 2004. We found wide variations in how well the internal audit activity in six federal organizations had met the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing (the IIA Standards). We also found variations in how well they complied with the Treasury Board Policy on Internal Audit that was in effect at that time:

- In two organizations (Public Works and Government Services Canada and the Royal Canadian Mounted Police), the internal audit activity generally met the IIA Standards.
- Three departments (Foreign Affairs and International Trade Canada, Human Resources and Skills Development Canada, and Natural Resources Canada) partially met the IIA Standards.
- One agency (Canadian International Development Agency) did not meet many of the IIA Standards.

3.7 Our report identified a number of important factors that, if implemented, could have a positive influence on the quality of internal audit across government:

- a consistent understanding by senior management of the role that internal audit can and should play;
- a departmental audit committee with external members who are independent of management;
- a clear human resource strategy for departments and central agencies that sets out the qualifications and appropriate number of staff for the internal audit community;
- a focus on assurance services; and
- a strategy to ensure appropriate internal audit coverage and capacity in small entities.

3.8 We also found that the Treasury Board of Canada Secretariat (the Secretariat) had yet to create and fund a strategy that would enable it to meet both the requirements of the Policy on Internal Audit that was in effect and the internal audit community's expectations. The Secretariat agreed with these observations and agreed to take action to correct the weaknesses we noted.

Events since 2004

3.9 To respond to these issues and to strengthen the government's internal audit capacity, the Treasury Board adopted a revised Policy on Internal Audit (the Policy) in April 2006. The revised Policy included related directives, guidelines, and standards. The Policy and its related guidance were revised again in July 2009.

3.10 The revised Policy and related guidance were designed to sustain a strong, credible internal audit activity that

- has the confidence of the government;
- contributes directly to sound risk management, control, and governance; and
- is well-positioned to support governance within departments and agencies across government.

The Policy requires that independent departmental audit committees be created and sets out specific requirements for internal audit activities, deputy heads, departmental audit committees, and the Comptroller General of Canada. Internal audit activities are to follow the Policy and the IIA International Professional Practices Framework (including the IIA Standards), which was adopted by Treasury Board in its Policy.

3.11 The internal audit community is also expected to respond to the requirements of the *Financial Administration Act*, which calls for deputy heads to ensure that the department has an internal audit capacity.

Focus of the audit

3.12 The focus of our audit was to find out whether departments, agencies, and the Office of the Comptroller General of Canada have acted upon the commitments they made in response to the observations and recommendations of our 2004 report.

3.13 The audit examined whether departments and agencies had set up independent audit committees, as the Policy requires, and whether the committees were carrying out the responsibilities that the Policy and related directives and guidelines set for them.

3.14 We looked at the audit committees of the 24 large departments and agencies that represent approximately 95 percent of the Government of Canada's total assets, liabilities, revenues, and expenses. (A list of these departments and agencies is found in **About the Audit**.)

3.15 The audit also assessed whether the internal audit activity met the requirements of the IIA Standards, which Treasury Board adopted in its

Policy. We examined four key attributes of an effective internal audit activity in a random sample of 12 of the 24 large departments. (A list of the 12 departments in the random sample is found in **About the Audit**.)

3.16 Specifically, we assessed the following aspects:

- the reporting relationship of internal audit;
- the risk-based audit plan that the internal audit activity created;
- whether the reporting practices met the requirements of the Policy and the IIA Standards; and
- whether the internal audit activity had completed an external quality assessment review, as the IIA Standards require.

3.17 We also conducted quality assessment reviews (Exhibit 3.2) in six of the large departments. (A list of the six departments that received such a review is found in **About the Audit**.)

3.18 The final area the audit addressed was whether the Office of the Comptroller General (the OCG) was providing leadership and direction for the internal audit community and for departmental audit committees.

3.19 In our audit, we examined the practices and procedures that departmental audit committees and internal audit have put in place over the last three years.

3.20 More details on the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

Exhibit 3.2 Purpose of a quality assessment review

A quality assessment review is an external assessment that includes assessing the following elements of the internal audit activity:

- conformity with the definition of internal auditing, the IIA Code of Ethics, and the IIA Standards, and with the internal audit activity's charter, plans, policies, procedures, practices, and legislative and regulatory requirements that apply;
- the board's, senior management's, and the operational managers' expectations;
- the integration of the internal audit activity into the organization's governance process, including the relationships between and among the key groups involved in the process;
- the tools and techniques used;
- the mix of knowledge, experience, and disciplines within the staff, including staff focus on process improvement; and
- a review of whether the internal audit activity adds value and improves the organization's operations.

Source: Adapted from the Institute of Internal Auditors International Professional Practices Framework

Observations and Recommendation

Departmental audit committees

3.21 Independent departmental audit committees are an important part of the governance structure of departments. These committees are designed to offer objective advice and recommendations to the deputy head on whether the department's risk management, control, and governance frameworks and processes (including accountability and auditing systems) are adequate, and on how well they have been implemented.

3.22 In its response to our 2004 audit, the Treasury Board revised its Policy on Internal Audit (the Policy) in 2006 to implement our recommendation that external members be required on departmental audit committees.

3.23 A key element of the Policy was that by 30 September 2009, deputy heads must have formed a departmental audit committee, with a majority of members from outside of the federal public administration. The collective skills, knowledge, and experience of members were to allow the committee to carry out its duties competently. Members of the departmental audit committee are to be chosen jointly by the respective deputy head and the Comptroller General and approved by the Treasury Board. Members of the committee who are from within the federal public administration must be at the deputy head or associate deputy head level. The Canada Revenue Agency appoints its audit committee from among members of its Board of Management all of whom are from outside the federal public administration.

3.24 Our assessment on the progress on the following topics is found at the end of this section (see page 14).

Independent departmental audit committees have been established

3.25 We looked at whether the 24 large departments had established independent departmental audit committees in accordance with the Policy and related guidelines, which required that independent audit committees be in place by 30 September 2009.

3.26 We noted that, in keeping with the Policy, 23 departmental audit committees were formed over the last three fiscal years:

- ten committees in 2007–08
- eight committees in 2008–09
- five committees in 2009–10

3.27 The Canada Revenue Agency implemented its audit committee in 1999, at the time the Agency was established as a separate agency.

3.28 We reviewed the composition of the audit committees in each of the 24 large departments to find out whether the makeup of each committee met the Policy's requirements. Specifically, we assessed the date the committee was formed, whether the majority of members were from outside the federal public administration, and, in the case of department members, whether they were deputy heads or associate deputy heads.

3.29 In each case, members appointed were independent of the federal public administration. Each committee had at least one member with the financial expertise that the Policy requires. Department members of the audit committee were deputy heads or associate deputy heads, as the Policy requires.

3.30 As part of our audit, we reviewed the process for identifying and recruiting external audit committee members. We found that the Office of the Comptroller General (the OCG) followed a rigorous process, using the services of a professional recruitment firm. This process identified independent, qualified individuals. Both the Comptroller General and the deputy head of the department recommended to the Treasury Board that these individuals be appointed. We reviewed the background documentation on each appointment and concluded that the process led to forming audit committees whose members meet the competency profiles that the Policy outlines. The Canada Revenue Agency appoints its audit committee through a resolution of the Board each fiscal year. All Canada Revenue Agency committee members are independent of the Agency.

3.31 The audit committee members and senior department officials we interviewed as part of this audit believe that the process was effective in identifying qualified individuals. However, they noted that the appointment process was lengthy.

3.32 We found that committee members for individual departments were often appointed on the same day, with the same terms of appointment. The OCG and departments have said that in renewing appointments to audit committees they will use terms of varying duration to ensure continuity.

Audit committee charters were created in keeping with the Policy on Internal Audit

3.33 In each of the 24 large departments, we looked to see whether the departmental audit committees had created and adopted a charter that sets out the committee's responsibilities, and whether these responsibilities matched the Policy's requirements. We found that in each case, the committee had created and approved such a charter. We found that the charters were consistent with the guidance provided by the OCG. We noted that the Canada Revenue Agency audit committee charter also sets out roles and responsibilities for its audit committee. These are consistent with the intent of the Treasury Board Policy on Internal Audit.

Audit committee members received appropriate training

3.34 As part of our audit, we reviewed the training and orientation material that departmental audit committee members received. Looking at both the type and the amount of training provided, we noted that the OCG and individual departments gave audit committee members a range of training.

3.35 We saw that the OCG offered training and development programs on the following topics:

- pillars and perspectives on the role of audit committees in the federal public service;
- financial management and literacy in the federal public service;
- risk management, frameworks and practices, and values and ethics; and
- management control frameworks.

The OCG also held departmental audit committee symposiums that dealt with a variety of topics.

3.36 We found that the vast majority of committee members took part in the orientation training that the OCG gave. As part of our audit, we interviewed a selection of audit committee members to collect their views on the training they received. Almost all the members we interviewed said that the training was very important to ensuring that they understood and carried out the duties expected of them. Members whose background was not in government said they found the orientation training valuable. Committee members added that this training should be continued.

3.37 As part of our audit, we reviewed the information and orientation that departmental audit committee members received about the business of their respective departments. We also asked a selection of the members how satisfied they were with the nature and amount of orientation material they received.

3.38 The committee members we interviewed said they were satisfied with their department's efforts to provide orientation on its objectives and programs. This material included presentations and key performance and accountability documents. Many members also went on site visits to see operations first-hand. Audit committee members said they felt that the departments had been very responsive when asked to give additional material or explanations.

Audit committees are at varying stages of development

3.39 Departmental audit committees were designed to provide advice to the deputy head. To do so, the Treasury Board Directive on Departmental Audit Committees requires the committees to exercise oversight of core areas of departmental management, control, and accountability, including reporting on the internal audit activity, and to provide advice to deputy heads.

3.40 The Policy requires audit committees to give advice and recommendations to the deputy head on the quality and results of assurance projects and the adequacy and functioning of the department's risk management, control, and governance frameworks and processes (including accountability and auditing systems).

3.41 As part of their responsibilities, departmental audit committees are to review and report at least once a year on these topics:

- management's arrangements to promote public service values and ethics and to ensure that departments comply with laws, regulations, policies, and standards of conduct;
- the corporate risk profile and the department's arrangements for managing risk;
- the department's arrangements for internal control; and
- assessments of the internal audit activities.

3.42 We found that each of the audit committees in the 24 large departments had created work schedules that would allow the committees to address all areas of their mandate each year.

3.43 As noted earlier, some audit committees were not formed until the 2009–10 fiscal year. In some cases, the committees had met only once or twice before our audit was completed. While the work programs for these committees addressed all required areas of the Policy, the committees had not yet had the opportunity to complete a full annual cycle. For this reason, these committees had not addressed all areas of responsibility. Those audit committees formed in previous fiscal years had looked at all areas of responsibility.

3.44 To find out whether departmental audit committee members received appropriate information, we reviewed the material that committee members received on the areas of responsibility that the Policy describes. We also interviewed a sample of audit committee members and deputy heads to see whether they were satisfied with the nature and amount of information they received.

3.45 The audit committee members we interviewed told us they were satisfied with the nature and amount of information they received. They also said they found that departments responded well to requests for more information or details. We noted that the departmental audit committees received the information they needed to carry out their duties. For example, in the area of risk management, we found that departmental officials typically provided committee members copies of the corporate risk profiles. In many cases, members also attended presentations by assistant deputy ministers on key priorities and risks tied to their areas of responsibility.

3.46 Proper documentation of the discussions and activities of the audit committees is an important element of showing the work that is being done. As part of our audit, we reviewed the minutes of the departmental audit committee meetings. In most cases, the minutes contained a recommendation for the deputy head to approve key items such as the risk-based internal audit plan or completed internal audit reports. In some cases, the minutes said only that the agenda item had been discussed. We also noted that the minutes did not always describe the type or length of the discussions. For this reason, it was not possible to assess the nature and extent of the discussion of key items.

3.47 However, in interviews we held as part of our audit, audit committee members and department managers both said they were satisfied with the nature and extent of discussion at audit committee meetings. The deputy heads we interviewed said they were satisfied with the advice the committees offered.

Independent departmental audit committees have had a positive effect

3.48 We wanted to find out in our audit what effect, if any, the departmental audit committees have had on departmental management and the internal audit activity.

3.49 To answer this question, we interviewed a broad range of department managers, deputy heads, and assistant deputy heads. We also interviewed internal audit management and staff.

3.50 We found that internal auditors and senior management alike said that creating independent departmental audit committees has strengthened the independence of internal audit. The chief audit executives we interviewed said that these committees significantly enabled the internal audit capacity to develop in departments. These executives also noted that the active participation of deputy heads on the committees served as an important signal within the organization that internal audit is a key part of the department's governance processes.

3.51 The deputy heads we interviewed said that the independent departmental audit committees brought an increased rigour and challenge to reviewing the results and quality of the work of internal audit. Deputy heads also noted the important role that audit committees play in challenging the completeness of action plans that management prepared to respond to completed audits and in monitoring progress against the action plans. Exhibit 3.3 indicates our assessment of progress in addressing our recommendations on departmental audit committees.

Exhibit 3.3 Progress in addressing our recommendations on departmental audit committees

Recommendation	Progress
The Treasury Board Secretariat should establish in the Treasury Board's Policy on Internal Audit a requirement for external membership on departmental audit committees. (Recommendation 1.40 of the 2004 November Report of the Auditor General of Canada, Chapter 1, Internal Audit in Departments and Agencies)	Satisfactory
The Treasury Board Secretariat should, as necessary, provide guidance on better practices for audit committee performance and provide guidance on appropriate training for departmental audit committee members. (Recommendation 1.48 of the 2004 November Report of the Auditor General of Canada, Chapter 1)	Satisfactory

Exhibit 3.3 **Progress in addressing our recommendations on departmental audit committees (continued)**

Recommendation	Progress
The Treasury Board Secretariat should update the roles and responsibilities of the audit committee and its members. (Recommendation 1.49 of the 2004 November Report of the Auditor General of Canada, Chapter 1)	Satisfactory

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Internal audit

3.52 Internal auditing is intended to be an independent, objective assurance and consulting activity that is designed to add value to and improve an organization's operations. It is intended to help an organization meet its objectives by bringing a systematic, disciplined approach to evaluating risk management, control, and governance processes and making them more effective.

3.53 In a random sample of 12 of the 24 large departments, we looked at the following four aspects of an internal audit activity:

- reporting relationships,
- risk-based plans,
- reporting practices, and
- completion of an independent external quality assessment review.

3.54 Our assessment of the progress on the following topics can be found at the end of this section (see page 21).

Reporting relationships support the independence of internal audit

3.55 We looked at whether each of the 12 departments in our sample had set up appropriate reporting relationships for the internal audit activity.

3.56 Treasury Board's Policy on Internal Audit (the Policy) requires that the internal audit activity report directly to the deputy head. Such a reporting relationship is an essential element in creating and preserving the internal audit activity's independence.

3.57 We found that in each of the 12 departments, the internal audit activity reported directly to the deputy head. We also found that the relationship established between the internal audit activity and the

departmental audit committees further supported the independence of the internal audit activity.

Annual audit plans focus on key risks

3.58 We looked at whether each of the 12 departments in our sample had developed a risk-based audit plan for the internal audit activity.

3.59 Government policy and the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing (the IIA Standards) require that the internal audit activity develop a risk-based audit plan to set its audit priorities, in keeping with the organization's goals. We noted that the OCG's Internal Audit Sector had developed guidance for departments to use to create a risk-based internal audit plan.

3.60 We found that in each of the 12 departments, the internal audit activity had developed a risk-based audit plan in keeping with the guidance. We noted that these plans clearly described those areas of departmental activities that would be subject to audit in the three-year planning horizon and explained why some areas would not be audited. In each case, the departmental audit committee had reviewed the risk-based audit plan. We found that there is an alignment between risk-based audit plans developed by internal audit and the department's risk profiles.

3.61 We noted that internal audit activities reported regularly to their respective audit committees on the status of work completed and key changes to their internal audit plan.

3.62 In October 2010, we reported on the results of our audit of expenditures under the government's Economic Action Plan (the Plan), which was introduced in the 2009 budget. That audit looked at whether internal audit had considered the changes, if any, in departmental risk profiles as a result of Plan expenditures and had adapted the planned audit coverage if necessary. Our audit of the Economic Action Plan in fall 2010 found that internal audit activities responded to the changes in the departmental risk profiles as a result of the Plan.

The results of internal audit work need to be reported clearly

3.63 We assessed the reporting practices that our random sample of 12 departments used to communicate the results of the work that the internal audit activities completed.

3.64 The IIA Standards require that an internal audit report contain, at a minimum, the purpose, scope, and results of the engagement. The report is also to include observations, conclusions, opinions, recommendations, and management's action plans to correct any weaknesses noted.

3.65 In addition, internal audit reports must clearly set out the results of the audit work. Reports are to note the extent to which observed conditions met expected criteria and, if necessary, the cause and effect of any changes in expected conditions.

3.66 Internal audit reports must meet these requirements because doing so clearly explains the nature and extent of the observations so that the reader can understand their importance. Also, this information helps to explain the impact that observed weaknesses may have on the department's ability to achieve its stated strategic outcomes or objectives.

3.67 We saw good practices in some internal audit activities and opportunities for further improvement in others. In particular, we noted a good practice that Canadian Heritage's internal audit activity adopted: using a rating system to identify whether controls are adequate. This approach sums up the department's performance for senior management and the audit committee. The conclusions and ranking reached for each of the examination criteria used in the audit were developed according to the definitions found in Exhibit 3.4. This approach clearly shows relative strengths and weaknesses in management practices and focuses on areas that need immediate attention.

3.68 In contrast, we also noted that a number of departments had adopted a reporting style that made it difficult for the reader to understand the seriousness of observations or the overall significance of the findings. In these cases, departments used wording that stated that elements of a management control framework were in place, but opportunities for improvement remained.

3.69 Many of the audit committee members and senior managers we interviewed as part of our audit noted the need for internal audit reports to be more succinct and to focus their recommendations at a strategic level.

Exhibit 3.4 Canadian Heritage uses a rating system to identify whether controls are adequate

Conclusion on audit criteria	Numerical categorization	Definition of conclusion
Is well-controlled	1	Is well-managed—with no material weaknesses noted—and is effective.
Is controlled	2	Is well-managed—but minor improvements are needed—and is effective.
Has moderate issues	3	Has moderate issues that call for management focus (at least one of the following two criteria must be met): • control weaknesses exist, but exposure is limited because likelihood of risk occurring is not high; or • control weaknesses exist, but exposure is limited because impact of the risk is not high.
Significant improvements are needed	4	Requires significant improvements (at least one of the following three criteria needs to be met): • financial adjustments that are material to line item or area or to the department are required; or • control deficiencies represent serious exposure; or • major deficiencies are found in the overall control structure.

Source: Adapted from Canadian Heritage rating system

Few departments have had an external quality assessment review

3.70 The Policy requires each internal audit activity to have an external review conducted at least once every five years.

3.71 Quality assessment reviews cover the entire spectrum of internal audit work that the internal audit activity performs. These reviews assess internal audit activities using three categories: "generally conforms," "partially conforms," or "does not conform" to the IIA Standards. The ratings are defined in Exhibit 3.5.

3.72 We looked at whether the 12 departments in our random sample had completed a quality assessment review.

3.73 We found that 3 of the 12 departments—the Canada Revenue Agency, Environment Canada, and Canadian Heritage—have had a quality assessment review completed. In each case, departments "generally conformed" to requirements of the Policy and the IIA Standards.

3.74 We also carried out detailed quality assessment reviews on a judgementally selected sample of six departmental internal audit activities to find out whether they met the requirements of the Policy and the IIA Standards. The results of these reviews are shown in Exhibit 3.6. Of these six departments, two—National Defence and the Canadian International Development Agency—had had an external quality assessment review in 2005 and 2004 respectively.

Exhibit 3.5 Quality assessment reviews use three categories to assess conformity to the IIA Standards

Generally conforms to the Standards—The relevant structures, policies, and procedures of the internal audit activity, as well as the processes by which they are applied, complied with the requirements of the Standards. While there may be opportunities for improvement, these did not represent situations where the internal audit activity had not implemented the Standards, did not apply them effectively, or did not achieve their stated objectives.

Partially conforms to the Standards—The internal audit activity has fallen short of achieving some of its major objectives. These will usually represent some significant opportunities for improvement in effectively applying the Standards and/or achieving their objectives. Some of the deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organization.

Does not conform to the Standards—The internal audit activity is not achieving many of the objectives of the Standards. These deficiencies will usually have a significant negative impact on the internal audit activity's effectiveness. They may also represent significant opportunities for improvement, including actions by senior management or the board.

Source: Adapted from Institute of Internal Auditors Quality Assessment Manual

Exhibit 3.6 Most of the departments we selected met the requirements of the Policy on Internal Audit and the IIA Standards

Organization	Generally conforms to the Policy and the IIA Standards	Partially conforms to the Policy and the IIA Standards	Does not conform to the Policy and the IIA Standards
Canadian International Development Agency	●		
Foreign Affairs and International Trade Canada	●		
Health Canada	●		
National Defence	●		
Royal Canadian Mounted Police		●	
Veterans Affairs Canada	●		

3.75 In conducting our assessment, we noted that the Royal Canadian Mounted Police's internal audit activity had experienced a significant turnover, which meant recruiting and rebuilding the activity. This situation had an impact on the assessment.

3.76 **Strengths noted.** In conducting these quality assessment reviews, we noted a number of strengths that were common to the six internal audit activities:

- an internal audit charter that set out the purpose and mandate of the internal audit activity;
- the departmental audit committee and deputy head had approved the internal audit charter; and
- the internal audit charters also set out the authority of the internal audit activity in terms of its right of access to the department's books, records, and staff.

3.77 We also noted that, in each case, the internal audit activity had appropriate reporting relationships. It reported directly to the deputy head, with oversight provided by an audit committee, the majority of whose members were from outside the federal public administration. This relationship is important because it supports the independence and objectivity of the internal audit activity. We also found that the planning activities that were done were well-documented and considered key aspects of the area to be audited.

3.78 **Opportunities for improvement.** Quality assurance and improvement programs for the internal audit activity need to be strengthened. Most of the internal audit activities that we reviewed were monitoring internal audits already in process. However, at the time of our audit, periodic assessments of internal audit activities as a whole had not been conducted. Both the monitoring and periodic assessment elements are necessary for an effective quality assurance and improvement program.

3.79 In completing the quality assessment reviews, we noted some common areas where departments could strengthen their practices. As stated in the previous section, the most frequent comment from key stakeholders—audit committee members and senior management—was about communication and reporting. In internal audit reports, these stakeholders were seeking concise observations that clearly communicated the strengths and weaknesses noted in the audit.

Exhibit 3.7 Progress in addressing our recommendation on external quality assessments

Recommendation	Progress
Departments should ensure that their internal audit groups conduct an external quality assessment by 1 January 2007. (Recommendation 1.92 of the 2004 November Report of the Auditor General of Canada, Chapter 1, Internal Audit in Departments and Agencies)	Unsatisfactory

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

3.80 Recommendation. Departments that have not had an external quality assessment should have an assessment conducted as required by the International Standards for the Professional Practice of Internal Auditing and the Treasury Board Policy on Internal Audit.

The Treasury Board of Canada Secretariat's response. Agreed. The Secretariat's Internal Audit and Evaluation Bureau (IAEB) has planned for the conduct of an external quality assessment for the Secretariat as a department. Specifically, a self-assessment exercise was conducted in the 2010–11 fiscal year, in preparation for an external quality assessment to be completed by fall 2011.

The Canada Border Services Agency's response. Agreed. The Canada Border Services Agency intends to complete an external quality assessment by June 2012, as required by the International Standards for the Professional Practice of Internal Auditing and the Treasury Board Policy on Internal Audit.

Canadian Heritage's response. Agreed. Canadian Heritage notes the Office of the Auditor General's recognition of quality assurance work conducted at the Department and will endeavour to undertake an external quality assessment every five years.

Correctional Service Canada's response. Agreed. We understand the necessity and usefulness of quality assessments. As such, we had a preliminary external assessment conducted in 2006, where recommendations for improvement were made and actions have been taken to address them. The results of the assessment and related actions have been presented to and approved by the audit committee and reported annually in the Chief Audit Executive reports. At this point in time, following Treasury Board's direction, Correctional

Service Canada fully expects to have an external inspection conducted by the end of the 2011–12 fiscal year.

The Department of Finance Canada's response. Agreed. Internal audit and evaluation at the Department of Finance is currently planning to have an external quality assessment conducted, as required by the International Standards for Professional Practice of Internal Auditing and the Treasury Board Policy on Internal Audit, by September 2012.

Human Resources and Skills Development Canada's response. Agreed. Corrective measures are well under way to address this observation. Prior to initiating a formal external quality assessment review in November 2010, the Internal Audit Services Branch conducted yearly self-assessments against the Institute of Internal Auditors Standards, the Office of the Comptroller General's Internal Audit Self-Diagnostic Tool, and relevant Treasury Board policies. The Branch also engaged an independent external reviewer in the 2008–09 fiscal year to conduct a preliminary assessment of the Department's readiness for the formal external assessment in the 2010–11 fiscal year. Building on the results of the preliminary assessment, the Department developed an action plan to address the gaps identified. The external quality assessment review is under way and will be completed by 30 April 2011.

Industry Canada's response. Agreed. An external quality assessment is currently planned for the 2013–14 fiscal year.

The Department of Justice Canada's response. Agreed. The Department of Justice is planning to conduct an external quality assessment during the 2011–12 fiscal year.

Office of the Comptroller General of Canada

3.81 In response to our 2004 audit, the Office of the Comptroller General (the OCG) made a commitment to strengthen the internal audit activity in government. The initial step taken was to revise the Policy on Internal Audit (the Policy) in April 2006, with further refinements in 2009. Key elements incorporated into the Policy to strengthen internal audit were

- professionalizing internal audit activity;
- adopting the Institute of Internal Auditors (IIA) International Professional Practices Framework; and
- creating departmental audit committees, the majority of whose members were from outside the public administration, to strengthen the independence of the internal audit activity.

3.82 The Policy's implementation was supported by strategic direction from the OCG and by supplementary funding to departments to help them achieve the Policy's objectives.

3.83 The Policy sets out a broad range of responsibilities for the OCG. The OCG is required to

- provide strategic direction, leadership, advice, and assistance on issues related to internal audit, and provide policy guidance and interpretation to departments and agencies on how to implement relevant policies, directives, guidelines, and standards;
- monitor how relevant policies are implemented and whether policy objectives are being achieved, as well as to ensure that internal audit activity adheres to the IIA Standards and rigorous methodology in delivering internal audits; and
- conduct horizontal and sectoral audits in large and small departments and agencies.

3.84 These responsibilities are designed to enhance the professionalization of the internal audit community. As part of our audit, we reviewed the actions of the OCG Internal Audit Sector. Our progress rating on the following topics can be found at the end of this section (see page 27).

The Office of the Comptroller General provides leadership and guidance to the internal audit community

3.85 **Strategic direction and guidance.** We conducted a number of interviews to identify the key mechanisms the OCG used to provide strategic direction and guidance to the internal audit community. We also reviewed guidance the OCG developed and steps it took to provide leadership to the internal audit community.

3.86 We found that the OCG has carried out a wide range of activities to inform and offer direction to the community on changes to the Policy framework and the internal audit profession. These activities include developing guidance and providing training and strategic direction to the community.

3.87 The OCG has developed a number of tools and guidance for internal audit activities. These include

- guidance on developing risk-based audit plans,
- guidance on core management controls,
- an inventory of audit programs,

- models for internal audit and audit committee charters,
- guidance on a practice inspection program, and
- guidance for departmental audit committees.

3.88 We also noted that the OCG has given strategic direction to the community. For example, as reported in our chapter on Canada's Economic Action Plan in our 2010 Fall Report, the OCG provided effective leadership, direction, and guidance to departmental internal audit activities with respect to audit coverage of expenditures made under the terms of the Economic Action Plan.

3.89 **Professionalization of the internal audit activity.** One of the OCG's priorities has been to develop a human resource strategy to enhance professionalism in internal audit. This strategy focuses on continuing professional development and on creating a model that standardizes expectations, skills, and experience needed for internal auditors at various levels within departments. The strategy included working with departments to decide on how many internal auditors departments need. These approaches are aimed at defining the current state of capacity in the federal government and providing a basis for future development of the community.

3.90 In conducting our audit, we interviewed a broad range of audit committee members, senior department managers, and the management and staff of internal audit groups. They raised several common concerns about what human resource strategies need to do for the internal audit activity. They agreed that such strategies need to

- focus on ongoing professional development,
- develop common expectations and classifications for the internal audit community to reduce the movement of internal audit staff from one organization to another and to achieve higher classification levels, and
- provide for orderly career advancement within the federal government's internal audit community.

3.91 We found that, in implementing the Policy, the OCG gave funds to departmental internal audit activities for the professional development of internal audit staff. As noted in Exhibit 3.8, departments have not used all of the funds they received for this purpose.

Exhibit 3.8 Departments did not use all of the funds they received for continuing professional development of internal audit staff

Fiscal year	Budget	Expended
2006–07	$2,455,000	$833,000
2007–08	$3,334,000	$1,952,000
2008–09	$3,026,000	$2,258,000

3.92 We found that ongoing professional development is available. The OCG sponsors regular conferences for chief audit executives to address current issues and provide a forum for the exchange of information. The OCG also invites all members of the community to regular internal audit forums. We noted that the OCG has created working protocols with the Canada School of Public Service and the Ottawa chapter of the Institute of Internal Auditors to deliver training programs, such as a three-day internal audit orientation workshop.

3.93 As part of our audit, we interviewed chief audit executives and internal audit staff about professional development. Many internal auditors said that the demands to complete assigned audits made it difficult to engage in ongoing professional development activities.

3.94 In response to the issues related to classification and career or succession planning for the internal audit community, the OCG has designed a maturity model to be used to identify current capacity within the internal audit community and to serve as a roadmap for further development. The OCG will work with departments to identify the required number of internal audit resources by department. The OCG is in the process of implementing this model, which includes implementation of standard classifications across all government departments.

3.95 The model includes key indicators for human resource development and levels of maturity that staff at various levels would be expected to show. The OCG has also created generic job descriptions for internal auditors at different levels within departments. The next step in developing and applying this model is to pilot test the model in 12 departments in the 2011–12 fiscal year.

3.96 Monitoring. The OCG is required to monitor the implementation of the Treasury Board Policy on Internal Audit (the Policy) and find out whether its objectives are being met. The Policy requires the Treasury Board of Canada Secretariat to complete an evaluation of the Policy by 1 April 2011. We found that the OCG has begun this mandatory evaluation.

3.97 As part of our audit, we reviewed the mechanisms the OCG has put in place to monitor how well the Policy's requirements are being met and how effectively internal audit capacity is being developed across government.

3.98 We noted that the main tool the OCG is using is the Management Accountability Framework. The OCG reviews and assesses information that departmental internal audit activities provide to find out how well they are complying with key aspects of the Policy. This process is designed to give the OCG an overview of the departments' progress in implementing the Policy.

3.99 Horizontal audits. In the 2009–10 fiscal year the OCG completed two horizontal audits in large departments and two in small departments and agencies. In previous years, such audits were not carried out beyond the survey phase. To support these audits, the OCG has created a government-wide, risk-based internal audit plan that is designed to identify the audits to be carried out over the next three years in both large departments and small departments and agencies. The OCG recently updated its risk-based plan and, in April 2010, presented the plan to its audit committee. In May 2010, departments received the approved horizontal audit plan, which sets out horizontal audits for the next three years. The risk-based plan also identifies areas of significance and risk in small departments and agencies that are to receive audit coverage. In 2010, the OCG Internal Audit Sector carried out two audits that addressed areas of risk in small agencies.

Exhibit 3.9 Progress in addressing our recommendations on staffing internal audit and audit coverage

Recommendation	Progress
The Treasury Board Secretariat, in collaboration with departments, should establish benchmarks to determine the number of internal auditors that the federal government and each department need to provide a reasonable level of audit coverage and a sustainable audit function. (Recommendation 1.57 of the 2004 November Report of the Auditor General of Canada, Chapter 1, Internal Audit in Departments and Agencies)	Satisfactory
The Treasury Board Secretariat, in collaboration with departments, should determine the appropriate mix of qualifications, experience, and skills required for internal audit on a department and government-wide basis. (Recommendation 1.63 of the 2004 November Report of the Auditor General of Canada, Chapter 1)	Satisfactory
The Treasury Board Secretariat, in consultation with small entities, should develop a risk-based strategy and establish, within government, a capacity for providing internal audit services to small entities. (Recommendation 1.73 of the 2004 November Report of the Auditor General of Canada, Chapter 1)	Satisfactory

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Conclusion

3.100 The government has shown satisfactory progress in acting upon the commitments it made in response to the observations and recommendations of our 2004 report.

3.101 We found that independent departmental audit committees have been created in the 24 large departments, with the majority of members coming from outside the federal public administration. Audit committees are at various stages in developing their practices and procedures. Established departmental audit committees are having a positive impact by contributing to stronger internal audit in government.

3.102 The government has strengthened its internal audit capacity within the large departments since our last audit, which was done in 2004. Departments have created internal audit charters that set out clear roles and responsibilities for internal audit activities. The

charters, along with strong support of senior management and departmental audit committees, have resulted in independent, objective internal audit activities. Most of the completed internal audit reports we reviewed are assuring management about internal control and making recommendations to improve departmental practices. Quality assurance and improvement processes for internal audits are at varying stages of development: some are well developed, while others are in early development.

3.103 The Office of the Comptroller General of Canada has responded to the observations and recommendations of our 2004 report. The OCG introduced a new policy framework that requires it to create audit committees and set clear expectations for them. The OCG provides direction and guidance to the internal audit community and to departmental audit committees.

About the Audit

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Objectives

The overall audit objective was to assess the progress that the government has made in addressing the concerns we raised in Chapter 1 of our 2004 November Report.

This follow-up audit assessed the extent to which, as required by the Treasury Board Policy on Internal Audit (the Policy),

- deputy heads of departments and agencies have created independent departmental audit committees and these committees were carrying out the duties and responsibilities that the Policy and related guidance set out for them,
- deputy heads of departments and agencies have appointed chief audit executives who are appropriately qualified and who have established internal audit activities, and
- the Office of the Comptroller General of Canada (the OCG) is carrying out its duties and responsibilities to provide leadership and direction to the internal audit community.

Scope and approach

Departmental audit committees. The audit assessed whether deputy heads of departments and agencies had created an independent departmental audit committee and whether these committees had carried out the duties and responsibilities that the Policy and its related directives set out for them.

We reviewed documentation for appointing external audit committee members and assessed whether, collectively, their backgrounds were consistent with the Policy's requirements, particularly the requirement for financial expertise.

Our audit included a review of the information that departments and agencies gave to audit committee members, to find out whether they received the information they needed to perform their roles and responsibilities. Our audit approach included interviews with a selection of audit committee members.

The audit team assessed the nature and extent of the tools and training that audit committee members received to help them understand and carry out their obligations.

This line of enquiry includes the following 24 large departments and agencies that represent approximately 95 percent of the Government of Canada's total assets, liabilities, revenues, and expenses:

- Agriculture and Agri-Food Canada
- Canada Border Services Agency
- Canada Revenue Agency
- Canadian Heritage

- Citizenship and Immigration Canada
- Canadian International Development Agency
- Correctional Service Canada
- Environment Canada
- Finance Canada, Department of
- Fisheries and Oceans Canada
- Foreign Affairs and International Trade Canada
- Health Canada
- Human Resources and Skills Development Canada
- Indian and Northern Affairs Canada
- Industry Canada
- Infrastructure Canada
- Justice Canada, Department of
- National Defence
- Natural Resources Canada
- Public Works and Government Services Canada
- Royal Canadian Mounted Police
- Transport Canada
- Treasury Board and Office of the Comptroller General
- Veterans Affairs Canada

Departmental internal audit activities. We conducted quality assessment reviews of internal audit activities in a selection of six departments and agencies to find out if the activity met the requirements of the Institute of Internal Auditors International Professional Practices Framework (including the IIA Standards). The following six departments were judgmentally selected using a variety of criteria:

- Canadian International Development Agency
- Foreign Affairs and International Trade Canada
- Health Canada
- National Defence
- Royal Canadian Mounted Police
- Veterans Affairs Canada

We also looked at the following four key aspects within the internal audit activity across a random sample of 12 of the 24 large departments and agencies:

- reporting relationships
- risk-based plans
- reporting practices
- completion of an independent quality assessment review of the activity

The 12 entities randomly selected for this review were the following:

- Canada Revenue Agency
- Canadian Heritage
- Canadian International Development Agency
- Correctional Service Canada
- Environment Canada
- Finance Canada, Department of
- Foreign Affairs and International Trade Canada
- Human Resources and Skills Development Canada
- Justice Canada, Department of
- Royal Canadian Mounted Police
- Treasury Board of Canada Secretariat and the Office of the Comptroller General
- Veterans Affairs Canada

The Office of the Comptroller General of Canada. We assessed whether the OCG was providing leadership and direction to the internal audit and departmental audit communities.

The audit excluded all Policy requirements related to small departments and agencies, except for the OCG's requirement to conduct horizontal audits on these departments and agencies each year.

Criteria

To determine whether deputy heads of departments and agencies have created independent departmental audit committees and whether these committees were carrying out the duties and responsibilities that the Policy on Internal Audit and related guidance set out for them, we used the following criteria:

Criteria	Sources
Deputy heads are responsible for establishing an independent audit committee.	• Policy on Internal Audit, section 5.4.2., Treasury Board, 2009 • Directive on Departmental Audit Committees, Treasury Board, 2009
Departmental audit committees are exercising oversight on • departmental values and ethics, risk management, and management control frameworks, which are reviewed with an appropriate risk-guided focus and cycle; • the internal audit activity; • results of work completed by the Office of the Auditor General and central agencies; • follow-up on management action plans to address internal and external audit recommendations; • financial statements and public accounts reporting; and • risk and accountability reporting.	Directive on Departmental Audit Committees, sections 4.1 and 4.2, Treasury Board, 2009
Departmental audit committees are meeting operational requirements of the Policy (charter, annual work plan, and annual report on activities).	Directive on Departmental Audit Committees, section 4.4, Treasury Board, 2009

To determine whether deputy heads of departments and agencies have appointed chief audit executives who are appropriately qualified and who have established internal audit activities, we used the following criteria:

Criteria	Sources
Deputy heads • have appointed chief audit executives at a senior executive level, reporting to the deputy head, with appropriate professional qualifications; and • have ensured that the audit committees received the information they needed to carry out their responsibilities.	• Guidelines on Expected Qualifications for Chief Audit Executives, section 3, Treasury Board • Directive on Chief Audit Executives, Internal Audit Plans, and Support to the Comptroller General, section 4.1, Treasury Board, 2009 • Policy on Internal Audit, section 5.4.3 and 5.6.3, Treasury Board, 2009 • Institute of Internal Auditors International Professional Practices Framework, Institute of Internal Auditors, 2009.
Chief audit executives have met their responsibilities to • establish appropriate policies and procedures to guide the internal audit activity; • establish a risk-based audit plan that is done at least once a year and that ensures proper coverage and minimizes duplication of effort; • ensure that the Institute of Internal Auditors (IIA) International Professional Practices Framework (including the IIA Standards) are followed; • ensure that internal auditors have appropriate professional qualifications, skills, and opportunities for training and development and obtain Certified Internal Auditor certification; • ensure that internal audit engagements are completed in a timely manner and that reports are given to the audit committee as quickly as possible; • develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity, and continuously monitor the program's effectiveness; • ensure that a practice inspection or other external review of the internal audit activity is conducted at least every four years.	• Institute of Internal Auditors International Professional Practices Framework, Institute of Internal Auditors, 2009. • Guidelines on Expected Qualifications for Chief Audit Executives, section 3, Treasury Board

To determine whether the Office of the Comptroller General of Canada is carrying out its duties and responsibilities to provide leadership and direction to the internal audit community, we used the following criteria:

Criteria	Sources
The Comptroller General has met his or her responsibilities to provide effective functional leadership by • developing and supporting the implementation of effective internal auditing methodologies and procedures across government; • strengthening the internal audit community through recruitment and training programs; • supporting the creation of independent departmental audit committees;	• Policy on Internal Audit, Appendix—Responsibilities of the Comptroller General for Internal Audit, Treasury Board, 2009 • Policy on Internal Audit, sections 5.7, 5.8.4, 5.8.5, and 5.8.6, Treasury Board, 2009

- liaising with chief audit executives, deputy heads and agents of Parliament, the Public Service Commission, and other central agencies on significant audit issues;
- ensuring ongoing practice inspections and assessments of the entire spectrum of departmental internal audit activities;
- undertaking or leading horizontal audits across large and small departments and agencies;
- reporting periodically to Treasury Board on the overall state of risk management, control, and governance across government, with a fulsome report occurring at least every three years;
- supporting the implementation of appropriately qualified audit committees, as well as providing guidance on expected committee practices across government; and
- evaluating the Policy on Internal Audit by 1 April 2011.

Management reviewed and accepted the suitability of the criteria used in the audit.

Period covered by the audit

The period covered by the audit was the fiscal year ending 31 March 2010. Audit work for this chapter was substantially completed on 28 November 2010.

Audit team

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For information, please contact Communications at 613-995-3708 or 1-888-761-5953 (toll-free).

Appendix List of recommendations

The following is the recommendation found in Chapter 3. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
Internal Audit	
3.80 Departments that have not had an external quality assessment should have an assessment conducted as required by the International Standards for the Professional Practice of Internal Auditing and the Treasury Board Policy on Internal Audit. (3.70–3.79)	**The Treasury Board of Canada Secretariat's response.** Agreed. The Secretariat's Internal Audit and Evaluation Bureau (IAEB) has planned for the conduct of an external quality assessment for the Secretariat as a department. Specifically, a self-assessment exercise was conducted in the 2010–11 fiscal year, in preparation for an external quality assessment to be completed by fall 2011. **The Canada Border Services Agency's response.** Agreed. The Canada Border Services Agency intends to complete an external quality assessment by June 2012, as required by the International Standards for the Professional Practice of Internal Auditing and the Treasury Board Policy on Internal Audit. **Canadian Heritage's response.** Agreed. Canadian Heritage notes the Office of the Auditor General's recognition of quality assurance work conducted at the Department and will endeavour to undertake an external quality assessment every five years. **Correctional Service Canada's response.** Agreed. We understand the necessity and usefulness of quality assessments. As such, we had a preliminary external assessment conducted in 2006, where recommendations for improvement were made and actions have been taken to address them. The results of the assessment and related actions have been presented to and approved by the audit committee and reported annually in the Chief Audit Executive reports. At this point in time, following Treasury Board's direction, Correctional Service Canada fully expects to have an external inspection conducted by the end of the 2011–12 fiscal year. **The Department of Finance Canada's response.** Agreed. Internal audit and evaluation at the Department of Finance is currently planning to have an external quality assessment conducted, as required by the International Standards for Professional Practice of Internal Auditing and the Treasury Board Policy on Internal Audit, by September 2012.

Recommendation	Response
	Human Resources and Skills Development Canada's response. Agreed. Corrective measures are well under way to address this observation. Prior to initiating a formal external quality assessment review in November 2010, the Internal Audit Services Branch conducted yearly self-assessments against the Institute of Internal Auditors Standards, the Office of the Cómptroller General's Internal Audit Self-Diagnostic Tool, and relevant Treasury Board policies. The Branch also engaged an independent external reviewer in the 2008–09 fiscal year to conduct a preliminary assessment of the Department's readiness for the formal external assessment in the 2010–11 fiscal year. Building on the results of the preliminary assessment, the Department developed an action plan to address the gaps identified. The external quality assessment review is under way and will be completed by 30 April 2011. **Industry Canada's response. Agreed.** An external quality assessment is currently planned for the 2013–14 fiscal year. **The Department of Justice Canada's response.** Agreed. The Department of Justice is planning to conduct an external quality assessment during the 2011–12 fiscal year.

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Status Report
of the Auditor General of Canada to the House of Commons

Chapter 4
Programs for First Nations on Reserves

Office of the Auditor General of Canada

The 2011 Status Report of the Auditor General of Canada comprises Matters of Special Importance, Main Points—Chapters 1 to 6, an appendix, and seven chapters. The main table of contents for the Report is found at the end of this publication.



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Chapter

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Programs for First Nations on Reserves

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Programs for First Nations on Reserves

Preface

Broad concerns: Services to First Nations

This preface contains views based on the numerous audits we have completed over the past decade. While not directly related to the audit that follows, the preface presents important matters that we believe should be brought to the attention of the House of Commons.

Over the past 10 years, the Office of the Auditor General has audited a broad range of services and federal activities affecting First Nations. Throughout this period we have had the opportunity to visit many of Canada's First Nations reserves, and to meet with chiefs, councils, and community leaders. We have interviewed hundreds of federal officials and numerous experts on First Nations issues.

It is clear that living conditions are poorer on First Nations reserves than elsewhere in Canada. Analysis by Indian and Northern Affairs Canada (INAC) supports this view. The Department has developed a Community Well-Being Index based on a United Nations measure used to determine the relative living conditions of developing and developed countries. INAC uses its index to assess the relative progress in living conditions on reserves. In 2010, INAC reported that the index showed little or no progress in the well-being of First Nations communities between 2001 and 2006. Instead, the average well-being of those communities continued to rank significantly below that of other Canadian communities. Conditions on too many reserves are poor and have not improved significantly.

In our audits, we have made numerous recommendations concerning federal programs and services for First Nations reserves. In our 2006 May Report, Chapter 5, Management of Programs for First Nations, we found that progress was generally unsatisfactory in implementing the recommendations that are most important to the lives and well-being of First Nations people. In that audit, we also identified seven critical factors that appeared to have helped or hindered implementation of our recommendations, depending on their presence or absence (see paragraphs 5.50 to 5.61 of our 2006 Report and 4.7 of this report).

In the audit that follows, we have again found progress to be unsatisfactory on several recommendations we have made over the past decade that are important for the lives and well-being of First Nations people. Even where federal actions have led to the implementation of our recommendations, it appears to us that the results have not led to significant improvements in the lives and well-being of people living in many First Nations communities.

Structural impediments explain the lack of progress on reserves

In our view, many of the problems facing First Nations go deeper than the existing programs' lack of efficiency and effectiveness. We believe that structural impediments severely limit the delivery of public services to First Nations communities and hinder improvements in living conditions on reserves. We have identified four such impediments:

- lack of clarity about service levels,
- lack of a legislative base,
- lack of an appropriate funding mechanism, and
- lack of organizations to support local service delivery.

Lack of clarity about service levels. Most of the services provided to communities throughout Canada are the responsibility of provincial and municipal governments, but this is not the case on reserves. Under the *Constitution Act, 1867*, the federal government has exclusive authority to legislate on matters pertaining to "Indians, and Lands reserved for Indians." INAC has been the main federal organization exercising this authority. While the federal government has funded the delivery of many programs and services, it has not clearly defined the type and level of services it supports.

Mainly through INAC, the federal government supports many services on reserves that are normally provided by provincial and municipal governments off reserves. It is not always evident whether the federal government is committed to providing services on reserves of the same range and quality as those provided to other communities across Canada. In some cases, the Department's documents refer to services that are reasonably comparable to those of the provinces. But comparability is often poorly defined and may not include, for instance, the level and range of services to be provided.

To provide true comparability, it would be important to include a clear statement of comparability in program objectives and define

comparability on a program-by-program basis. Roles and responsibilities would also need to be specified, as would the level of services required for comparability. In addition, the costs of achieving comparability would have to be determined and programs would have to be adequately funded. It would be necessary to establish measures for evaluating performance and determining whether the program was achieving the desired outcomes.

Lack of a legislative base. Provincial legislation provides a basis of clarity for services delivered by provinces. A legislative base for programs specifies respective roles and responsibilities, eligibility, and other program elements. It constitutes an unambiguous commitment by government to deliver those services. The result is that accountability and funding are better defined.

The federal government has often developed programs to support First Nations communities without establishing a legislative or regulatory framework for them. Therefore, for First Nations members living on reserves, there is no legislation supporting programs in important areas such as education, health, and drinking water. Instead, the federal government has developed programs and services for First Nations on the basis of policy. As a result, the services delivered under these programs are not always well defined and there is confusion about federal responsibility for funding them adequately.

Lack of an appropriate funding mechanism. The federal government uses contribution agreements to fund the delivery of services on First Nations reserves. Through these agreements, First Nations receive a certain level of funding to provide various programs and services in their communities. We see several problems with the use of this funding mechanism for the provision of core government services. One problem is that, while the agreements state the services or actions to be provided, they do not always focus on service standards or results to be achieved.

The timing for provision of funds under contribution agreements is also problematic. Most contribution agreements must be renewed yearly. In previous audits, we found that the funds may not be available until several months into the period to be funded; one reason is that new agreements cannot be finalized until departments have reviewed documentation and confirmed that funds from the previous period were used appropriately. Consequently, First Nations must often reallocate funds from elsewhere to continue meeting community service requirements. However, INAC recognizes the importance of providing certain services on an ongoing basis, such as health care and education. The Department therefore continues to fund these and

other essential services even before it has confirmed appropriate spending of funds for the previous period.

The use of contribution agreements between the federal government and First Nations may also inhibit appropriate accountability to First Nations members. It is often unclear who is accountable to First Nations members for achieving improved outcomes or specific levels of services. First Nations often cite a lack of federal funding as the main reason for inadequate services. For its part, INAC maintains that the federal government funds services to First Nations but is not responsible for the delivery or provision of these services.

Contribution agreements involve a significant reporting burden, especially for small First Nations with limited administrative capacity. Communities often have to use scarce administrative resources to respond to numerous reporting requirements stipulated in their agreements. We followed up on INAC's efforts to reduce the reporting requirements of First Nations and found progress to date to be unsatisfactory even though the Department had taken various actions (see paragraphs 4.71 to 4.85).

The use of contribution agreements to fund services for First Nations communities has also led to uncertainty about funding levels. Statutory programs such as land claim agreements must be fully funded, but this is not the case for services provided through contribution agreements. Accordingly, it is not certain whether funding levels provided to First Nations in one year will be available the following year. This situation creates a level of uncertainty for First Nations and makes long-term planning difficult. In contrast, legislation may commit the federal government to provide statutory funding to meet defined levels of service. A legislative base including statutory funding could remove the uncertainty that results when funding for services depends on the availability of resources.

Lack of organizations to support local service delivery. Over the decades, provinces have established many organizations and structures to support local delivery of programs and services to communities. For example, provinces have developed school boards, health services boards, and social service organizations. These organizations can supply vital expertise, facilitate career advancement, and develop a means of efficient and effective delivery of services.

There are few similar organizations to support service delivery within First Nations communities. The federal government established each First Nation band as an autonomous entity and provides separate

program funding to each. Many of these First Nations are small, consisting of communities that often have fewer than 500 residents. There are more than 600 First Nations across Canada. Many of them are hampered by the lack of expertise to meet the administrative requirements for delivering key programs within their reserves. They often do not have the benefit of school boards, health boards, or other regional bodies to support the First Nations as they provide services to community members.

In an attempt to address the lack of organizations supporting the delivery of services, INAC has developed new approaches and worked with groups representing various First Nations. For example, the Department has worked with First Nations organizations and provincial governments to develop improved child and family service programs in several provinces. It has also recently launched the Reforming First Nation Education Initiative, which includes support for establishing partnerships with First Nations regional organizations and provinces; for example, it has provided funding to organizations such as the First Nations Education Steering Committee in British Columbia and the First Nations Education Council in Quebec. This is a start, but much remains to be done.

Change is needed if meaningful progress is to be realized

Despite the federal government's many efforts to implement our recommendations and improve its First Nations programs, we have seen a lack of progress in improving the lives and well-being of people living on reserves. Services available on reserves are often not comparable to those provided off reserves by provinces and municipalities. Conditions on reserves have remained poor. Change is needed if First Nations are to experience more meaningful outcomes from the services they receive. We recognize that the issues are complex and that solutions will require concerted efforts of the federal government and First Nations, in collaboration with provincial governments and other parties.

We believe that there have been structural impediments to improvements in living conditions on First Nations reserves. In our opinion, real improvement will depend on clarity about service levels, a legislative base for programs, commensurate statutory funding instead of reliance on policy and contribution agreements, and organizations that support service delivery by First Nations. All four are needed before conditions on reserves will approach those existing elsewhere across Canada. There needs to be stronger emphasis on achieving results.

We recognize that the federal government cannot put all of these structural changes in place by itself since they would fundamentally alter its relationship with First Nations. For this reason, First Nations themselves would have to play an important role in bringing about the changes. They would have to become actively engaged in developing service standards and determining how the standards will be monitored and enforced. They would have to fully participate in the development of legislative reforms. First Nations would also have to co-lead discussions on identifying credible funding mechanisms that are administratively workable and that ensure accountable governance within their communities. First Nations would have to play an active role in the development and administration of new organizations to support the local delivery of services to their communities.

Addressing these structural impediments will be a challenge. The federal government and First Nations will have to work together and decide how they will deal with numerous obstacles that surely lie ahead. Unless they rise to this challenge, however, living conditions may continue to be poorer on First Nations reserves than elsewhere in Canada for generations to come.



Programs for First Nations on Reserves

Main Points

What we examined

The federal government supports numerous services to First Nations members on reserves that are similar to those provided by provincial and municipal governments to people off reserves. These services range from education and social development programs to land management and economic development, housing, provision of potable water, and provision of benefits to First Nations members under treaties and other agreements.

In several audits over the past decade, we have identified issues of particular importance to the lives and well-being of First Nations and Inuit. In this follow-up audit, we examined the government's progress toward achieving the commitments it made to address significant observations and recommendations from seven of those reports, issued between 2002 and 2008. We focused on the areas of education, water quality, housing, child and family services, land claim agreements, and reporting requirements.

Our audit included the roles that Indian and Northern Affairs Canada (INAC), Health Canada, the Canada Mortgage and Housing Corporation (CMHC), and the Treasury Board of Canada Secretariat play in the management of programs to improve the lives of First Nations and Inuit.

Audit work for this chapter was substantially completed on 1 November 2010.

Why it's important

According to the Report of the Royal Commission on Aboriginal Peoples (1996), Canada's First Nations reserves experience long-standing challenges such as ill health, insufficient and unsafe housing, high unemployment, polluted water supplies, inadequate education, poverty, and family breakdown. The federal government supports programs that can improve the lives of people who live on reserves. However, despite the billions of federal dollars spent each year on programs to address the social and economic challenges on First Nations reserves, conditions there remain significantly below the national average.

What we found

- Despite considerable efforts and concrete actions in some areas, federal organizations have not made satisfactory progress on commitments made in response to several recommendations from our previous audits. INAC has just begun implementing a strategy to close the education gap. The Department has not defined what is meant by its policy of providing child and family services that are reasonably comparable to what exists in the provinces. Nor has it developed and implemented a plan to communicate to other federal organizations what specific obligations they have under land claim agreements or monitored their results. INAC and Health Canada do not ensure that drinking water is tested on a regular basis. INAC, Health Canada, and the Canada Mortgage and Housing Corporation have developed a strategy for dealing with mould in housing, but it is not comprehensive as it focuses on education rather than remediation and provides no new funding.
- INAC has implemented commitments it made in response to some of our recommendations. For example, it has taken steps to monitor progress toward the objectives of comprehensive land claim agreements, and has put in place a system to track and monitor progress on all federal commitments contained in the agreements. Along with Health Canada, INAC has developed draft legislation related to drinking water on reserves. In addition, the Department recently agreed with several provinces and First Nations on frameworks to improve child and family services on reserves, but it will likely be several years before meaningful results are realized.
- Notwithstanding the considerable efforts made, conditions have generally not improved for First Nations in each of the areas subject to our audit. The education gap between First Nations living on reserves and the general Canadian population has widened, the shortage of adequate housing on reserves has increased, comparability of child and family services is not ensured, and the reporting requirements on First Nations remain burdensome.
- Broader concerns that we believe have inhibited progress include the lack of clarity about service levels on First Nations reserves, lack of a legislative base to fund service delivery on reserves, a lack of an appropriate funding mechanism, and a lack of organizations that could support local service delivery. There is a risk that living conditions on many First Nations reserves will remain significantly below national averages, with little prospect of a brighter future, until these concerns are addressed.

The Department has responded. The Department agrees with our recommendation. Its detailed response follows the recommendation.

Introduction

4.1 The federal government funds and supports many programs and services to First Nations communities that are similar to the services provided by provinces and municipalities off reserves. Under section 91 of the *Constitution Act, 1867*, Parliament has legislative jurisdiction over "Indians, and Lands reserved for Indians." The *Indian Act*, passed under this authority, and numerous court decisions in this area establish a complex legal regime that applies to reserves and Status Indians. INAC has been the main federal organization exercising this authority. While the federal government has funded and supported many programs and services, it has not clearly defined the type and level of services it supports.

4.2 The programs and services include education and social development programs, land management and economic development, housing, drinking water, and the provision of benefits to First Nations members under treaties and other agreements. Approximately half of the Status Indians in Canada live off reserves and receive some health and education benefits provided by the federal government.

4.3 First Nations members generally face far greater challenges than those confronting Canadian society as a whole, whether they live on or off reserves. The challenges include lower-than-average education levels, higher unemployment, and poorer quality housing and infrastructure. Tuberculosis infection rates are much higher among First Nations members than among other Canadians.

4.4 The Royal Commission on Aboriginal Peoples referred to many of these challenges faced by First Nations when it reported in 1996. It presented numerous recommendations to improve the relationship between the federal government and First Nations. The government responded in 1997 with its report, *Gathering Strength: Canada's Aboriginal Action Plan*. The Plan identified four key areas of focus: renewing partnerships, strengthening Aboriginal governance, developing a new fiscal relationship, and supporting strong communities. In 2000, the government's progress report on the Plan claimed impressive results. In contrast, the Assembly of First Nations published a report card in 2006 stating that Canada had failed in its actions responding to the recommendations of the Royal Commission.

4.5 The Auditor General of Canada established Aboriginal issues as an important focus area for performance audits. In its reports to Parliament between 2001 and spring 2010, the Office of the Auditor General published 16 chapters addressing First Nations and Inuit

issues directly. Another 15 chapters dealt with issues of importance to Aboriginal people. The Office made numerous recommendations calling on Indian and Northern Affairs Canada (INAC) and other federal departments to address a wide range of issues of importance to First Nations and Inuit people.

What we found in 2006

4.6 In our 2006 May Report, Chapter 5, Management of Programs for First Nations, we followed up on progress made toward addressing the recommendations we had issued in seven previous reports. We found substantial progress in some areas and less in others. We particularly found unsatisfactory progress on 15 recommendations—generally those most likely to improve the lives of First Nations living on reserves. Departments had made satisfactory progress in addressing 22 other recommendations; many of these tended to be more administrative in nature and to have less direct impact on the lives of First Nations people.

4.7 **Critical factors.** Our 2006 May Report also identified seven factors that we regarded as critical to departments' success in implementing our recommendations:

- sustained management attention,
- coordination of government programs,
- meaningful consultation with First Nations,
- developing capacity within First Nations,
- establishing First Nations institutions,
- an appropriate legislative base for programs, and
- managing the conflicting roles of Indian and Northern Affairs Canada.

4.8 We concluded that full consideration of these factors when adjusting existing programs and implementing new ones would make a significant difference in the lives of First Nations people. The Government of Canada agreed that the critical factors were important and stated that they constituted an increasingly important part of the government's approach for the broader Aboriginal agenda. The government committed to taking the critical factors into account when developing approaches aimed at securing a better future for Aboriginal peoples.

Focus of the audit

4.9 This follow-up audit examines progress made by federal departments in addressing selected observations and recommendations from seven previous reports completed between 2002 and 2008. The reports covered a wide range of issues, all of which we consider to be important to the lives and well-being of First Nations people. The issues include the following:

- **Education.** In 2000 and 2004, our reports identified a gap between the secondary school completion rates for First Nations people on reserves and the rates for other Canadians.
- **Water.** In 2005, we reported the lack of a legislative regime to ensure that water quality on reserves met the Guidelines for Canadian Drinking Water Quality, despite the existence of such a regime in every province and territory.
- **Housing.** In 2003, we reported a significant housing shortage on reserves and the need for major renovations of about 44 percent of existing housing because of problems such as mould contamination. In 2006, we reported unsatisfactory progress in addressing the problem of mould.
- **Child and family services.** In 2008, we reported that First Nations children were eight times more likely to be removed from their homes than other Canadian children.
- **Land claim agreements.** In 2003 and 2007, we reported that the federal government was not implementing all of its obligations under land claim agreements and was not living up to the spirit and intent of the agreements.
- **Reporting requirements.** In 2002, we noted that First Nations communities, many of them having fewer than 500 members, had to fill out an excessive number of reports for INAC each year, and that many of the reports were never reviewed and served no purpose.

4.10 This audit follows up on key issues in each of these areas and examines the extent to which federal organizations have addressed related recommendations and have acted on their commitments. It examines actions taken by INAC, Health Canada, the Canada Mortgage and Housing Corporation, and the Treasury Board of Canada Secretariat to address 12 of the 50 recommendations that directly relate to the key issues we examined in chapters of seven previous reports to Parliament. Where applicable, it also provides an update on actions taken in relation to the government's

commitments in response to recommendations made by the House of Commons Standing Committee on Public Accounts.

4.11 The preface identifies underlying concerns that we believe have inhibited more meaningful progress.

4.12 More details about the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

Observations and Recommendation

Progress on implementation of recommendations

4.13 Even after considerable efforts and action on the part of the federal government, progress has been elusive on many of the issues raised in previous reports of the Office of the Auditor General concerning First Nations people living on reserves. We found unsatisfactory progress in addressing several of the recommendations on which we followed up, including in the areas of education, housing, child and family services, and the reporting requirements placed on First Nations. On the positive side, we found satisfactory progress in the steps taken thus far to address recommendations concerning the introduction of a regulatory regime for drinking water on reserves and improved implementation of comprehensive land claim agreements. Nevertheless, progress overall has been slow and has yet to significantly improve conditions in First Nations communities. A recommendation regarding our previous recommendations on which progress to date has been unsatisfactory or incomplete appears at paragraph 4.86.

Efforts to close the education gap have yet to yield results

4.14 Education is critical to raising the social and economic strength of First Nations individuals and communities to a level reached by other Canadians. Many First Nations students and communities face fundamental issues and challenges that are comparatively rare among other Canadians and that may impede their educational achievement. We found that, based on 2001 and 2006 census data, the education gap has not been reduced and Indian and Northern Affairs Canada (INAC) has only begun to implement a strategy for closing it.

4.15 In 2004, we reported a significant gap in educational achievement, measured by secondary school graduation rates, between First Nations members living on reserves and the overall Canadian population. We noted that INAC used a funding formula dating back to the 1980s and lacked information that would enable it to compare costs with those of providing comparable education services in the

provinces. Consequently, the Department did not know whether the funding it provided to First Nations was appropriate. Concerning post-secondary education, we found that the funding allocation mechanism did not ensure equitable access to financial support for as many students as possible.

4.16 Education gap. We followed up on two recommendations in our 2004 audit of INAC's education program and post-secondary student support. We also examined actions taken on the government's commitments in response to a recommendation of the House of Commons Standing Committee on Public Accounts (the Public Accounts Committee) related to post-secondary education. In particular, in our 2004 audit we recommended that INAC develop and implement a comprehensive strategy and action plan to close the education gap. INAC started work to respond to the recommendation, but we found that it has not maintained a consistent approach and cannot demonstrate improvements to date. It did not fully implement the action plan drafted in response to our audit.

4.17 Meanwhile the proportion of high school graduates has risen steadily in the general population across Canada but not among First Nations students living on reserves. Based on census data from 2001 and 2006, the education gap is widening. The proportion of high school graduates over the age of 15 is 41 percent among First Nations members living on reserves, compared with 77 percent for Canadians as a whole. In 2004, we noted that at existing rates, it would take 28 years for First Nations communities to reach the national average. More recent trends suggest that the time needed may be still longer.

4.18 In 2008, INAC launched the Reforming First Nation Education Initiative, consisting of two programs. The target is to have 75 percent of First Nations students achieve education outcomes comparable to the rest of Canada by 2028. The initiative is intended to, among other things, foster more partnerships with the provinces. It is too early to assess the initiative's results since the new programs are just starting. More than six years after we last recommended that INAC implement a strategy to close the education gap, we found that it has only begun to do so.

4.19 Cost comparisons. In 2004, we recommended that INAC determine and compare the costs of delivering education services on reserves with the costs of providing comparable education services in the provinces. INAC undertook to perform a review comparing the funds it allocates to schools operated by First Nations with the funds those schools would receive under the applicable provincial funding formula. We believe that knowing these costs is necessary for

developing an effective education strategy, closing the education gap, and meeting the education needs of students living on reserves. INAC spent $1.8 billion on its education program in the 2008–09 fiscal year.

4.20 We found that INAC has reviewed its funding for First Nations schools. The Department compared the formula it used to fund First Nations schools with the formulas used by several provinces. It estimated that per-student funding was similar, although there were regional differences. The Department also identified seven categories of factors having a significant impact on the cost of First Nations education, although it did not make funding adjustments based on its findings.

4.21 **Post-secondary funding.** In line with our 2004 audit, the Public Accounts Committee recommended that INAC review its post-secondary funding mechanisms, noting that existing mechanisms did not ensure equitable funding to as many eligible students as possible. The government responded that INAC was undertaking a comprehensive review of its post-secondary education program, including an examination of its funding mechanisms. Although the Department has studied various delivery options for post-secondary programs, we found that it has not specifically reviewed post-secondary funding mechanisms. As in 2004, INAC still allocates funds by First Nations community without regard to the number of eligible students; moreover, band governments have the flexibility to allocate the funds outside the program. Again, as in 2004, we found that the current funding mechanism and delivery model used to fund post-secondary education does not ensure that eligible students have equitable access to post-secondary education funding.

4.22 More than six years after our previous audit, we found that INAC has taken various actions but has not maintained a consistent approach to education on reserves. It has yet to make progress in closing the education gap (Exhibit 4.1). This could have significant consequences for First Nations members living on reserves because they might not have access to the benefits associated with a higher level of education. Post-secondary education could improve employment opportunities for First Nations.

Federal action on drinking water quality has not led to significant improvements

4.23 Access to safe drinking water is vital to the health of all Canadians. Drinking water needs to be managed rigorously and tested regularly to ensure its safety and protect public health. Provinces have legislation and regulations in place to ensure the safety of the drinking water supply chain, but provincial regulations are not applied on

Exhibit 4.1 Progress on addressing two recommendations on education

Recommendation	Progress
Indian and Northern Affairs Canada, in consultation with First Nations, should immediately develop and implement a comprehensive strategy and action plan, with targets, to close the education gap. It should also report progress to Parliament and to First Nations on a timely basis. (Recommendation 5.33 of the 2004 November Report of the Auditor General of Canada, Chapter 5. Indian and Northern Affairs Canada—Education Program and Post-Secondary Student Support)	Unsatisfactory
Indian and Northern Affairs Canada should undertake to obtain reliable and consistent information on the actual costs of delivering education services on reserves and compare the costs with those of providing comparable education services in the provinces. (Recommendation 5.51 of the 2004 November Report of the Auditor General of Canada, Chapter 5)	Satisfactory

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

reserves. INAC and Health Canada have developed the proposed legislation that was before Parliament at the end of the audit, but there are still no legislated standards for water quality on reserves. According to INAC data, more than half of the drinking water systems on reserves continue to pose a risk to the people who use them.

4.24 In 2005, we audited drinking water on reserves and found that First Nations communities did not benefit from a level of drinking water protection comparable to that available to people living off reserves because provincial legislation and regulations are not applied on reserves. The 2005 audit found that the federal government had not acted even though it had primary jurisdiction to regulate water supply on reserves. Consequently, First Nations communities did not have a regulatory regime to govern drinking water. INAC and Health Canada instead used various funding arrangements with First Nations and monitored activities through administrative reporting requirements associated with the contribution funding. There were no statutes or regulations to require monitoring of the quality and safety of drinking water on reserves. Our 2005 audit also found that, in most First Nations communities, drinking water was tested less frequently than recommended under the Guidelines for Canadian Drinking Water Quality. We noted as well that INAC had found a significant risk to the quality or safety of drinking water in three quarters of the drinking water systems on reserves.

4.25 In this follow-up, we assessed the progress made in implementing two of our recommendations and in addressing the water systems posing significant risks. We examined actions taken by INAC and Health Canada to implement a regulatory regime. We also assessed whether INAC had reduced the number of drinking water systems posing a significant risk to the safety of drinking water.

4.26 **Regulatory regime.** In 2005, we recommended that INAC and Health Canada implement a regulatory regime for drinking water in First Nations communities. INAC responded that, together with Health Canada and in consultation with First Nations, it would fully explore the options and feasibility of a regulatory regime. The government has since committed to developing such a regime. We found that INAC and Health Canada have made some progress in this direction. Following a consultation process started in 2006 with First Nations, INAC and Health Canada drafted a bill tabled in Parliament in May 2010. The bill would enable the government to make regulations related to drinking water on reserves, and to incorporate by reference corresponding provincial legislation and adapt it to meet the needs of First Nations. At the end of our audit, the bill was at second reading.

4.27 Even after the bill is passed into law, however, it may still take years to develop and implement related regulations. INAC and Health Canada plan to phase them in following consultation, negotiation, and capacity development. After this, the two departments plan to seek funding for developing and implementing regulations and compliance plans. INAC plans to absorb the cost of enforcing regulations from its existing resource allocations. It may, therefore, be years before a fully implemented regulatory regime on drinking water is in effect for all First Nations reserves.

4.28 **Water quality monitoring.** The 2005 audit also recommended that Health Canada, in consultation with INAC, ensure that all drinking water tests be carried out, that test results be properly recorded and shared, that situations where drinking water was not safe be identified and the necessary measures for each situation be defined, and that action be taken by responsible parties as required. The departments agreed with the recommendation and committed to improving their procedures to address these issues. We found that Health Canada and INAC have taken action to improve their administrative procedures to address each of the issues. Since the 2005 audit, the departments have reviewed, clarified, and formalized their roles and responsibilities for managing drinking water systems. The departments also improved their guidance to communities and established electronic management systems in most regions.

4.29 We also examined specific actions taken to ensure that all drinking water tests were carried out and that the results were recorded and shared by Health Canada and INAC. For this purpose, we selected 20 First Nations community water systems from three regions where advisories on drinking water quality were issued between January 2009 and March 2010. We found that the departments did not fully implement many of the requirements we examined. For example, between 2006 and 2010 INAC had conducted only 25 of 80 required annual inspections and 47 of 80 risk evaluations in our sample. For the 2008–09 fiscal year, Health Canada reports that its data indicated that water at First Nations community sites was tested less often than recommended under departmental procedures, which are based on the Guidelines for Canadian Drinking Water Quality. At only 40 percent of community sites, for example, bacteriological sampling was performed at the recommended frequency.

4.30 We found that in one of the three regions in our sample, Health Canada did not systematically share information with INAC on water test results as required. Health Canada told us that it could not do so because an information-sharing requirement had not been included in its funding arrangements with tribal councils.

4.31 We also examined actions taken by Health Canada to ensure that situations where drinking water was not safe were identified, the necessary measures for each situation were defined, and action was taken as required. We found that Health Canada had informed First Nations when test results showed that drinking water was not safe and had recommended actions to be taken by the First Nations. We found as well that Health Canada and INAC established a process to ensure that appropriate actions were taken in these situations. Further, we found that Health Canada monitors most water systems for which drinking water advisories have been issued.

4.32 In the absence of a regulatory enforcement regime, INAC included its procedures in the terms and conditions of contribution agreements with First Nations. Health Canada took a different approach, simply considering its procedures to be best practices. We noted that a Health Canada internal memorandum reported that since the 2004–05 fiscal year, the Pacific, Saskatchewan, and Ontario regions have not achieved 75 percent of the recommended bacteriological sampling frequency for piped community systems. We note that beginning in April 2010, Health Canada started to include its procedures in some of its funding agreements with First Nations.

4.33 Risks posed by drinking water systems. INAC uses results of annual inspections and risk evaluations to rate First Nations communities' drinking water systems as high, medium, or low risk. As mentioned earlier, we found that INAC had not completed annual inspections and risk evaluations for most of our sample. In its 2006–07 Report on Plans and Priorities, INAC had planned to reduce all high-risk systems and the majority of medium-risk systems by April 2008. INAC reported that it had reduced the proportion of high-risk systems from 29 percent to 6 percent by March 2010, while the proportion of medium-risk systems rose from 46 percent to 53 percent. The figures may not be accurate because the ratings were not always based on up-to-date inspections. INAC reported that more than half of drinking water systems on reserves still pose a significant risk to community members.

4.34 First Nations reserves may still be years away from having drinking water protection comparable to what exists off-reserve in Canada. As of March 2010, more than half of water systems on reserves still posed a medium or high risk to the community members they served. There are still no legislative or regulatory regimes applicable to First Nations reserves, and putting these in place will take time and collaborative efforts. Until they are in place, there will be no statutory enforcement powers for water quality on reserves. Until then, INAC and Health Canada cannot be sure that First Nations members living on reserves have ongoing access to safe drinking water (Exhibit 4.2).

Federal housing initiatives are not keeping pace with needs

4.35 Although the federal government takes the view that it does not provide housing support on reserves as a result of legislative or treaty obligations, INAC and the Canada Mortgage and Housing Corporation (CMHC) assist First Nations in meeting their on-reserve housing needs by providing funding. First Nations have responsibilities related to housing. In 2003, we reported that, according to INAC, the housing stock generally deteriorates more rapidly on reserves, mainly because of substandard construction practices or materials, lack of proper maintenance, and overcrowding. We noted that poor housing on reserves has been shown to have a detrimental effect on the health, education, and overall social conditions of First Nations members and communities. Moreover, the population on reserves has been growing faster than the general population, heightening the need for more housing. For several years, mould contamination has been identified as a serious health and safety problem in First Nations reserves, liable to cause respiratory illnesses such as asthma. In this audit, we found that housing conditions on reserves are worsening. We also found that

Exhibit 4.2 Progress on addressing two recommendations on drinking water

Recommendation	Progress
Indian and Northern Affairs Canada and Health Canada, in consultation with First Nations, should develop and implement a regulatory regime for drinking water in First Nations communities. This regime should be comparable with that in provinces and designed to protect the health and safety of First Nations people. As a minimum, this regime should deal with roles and responsibilities, water quality requirements, technical requirements, certification of systems and operators, compliance and enforcement, and public reporting requirements. (Recommendation 5.36 of the 2005 September Report of the Commissioner of the Environment and Sustainable Development, Chapter 5, Drinking Water in First Nations Communities)	Satisfactory
Health Canada, in consultation with Indian and Northern Affairs Canada and First Nations, should ensure that • all drinking water tests recommended under the Guidelines for Canadian Drinking Water Quality are being carried out; • test results are properly recorded and relevant information is shared with appropriate parties; • situations where drinking water is not safe, or where there is no assurance of drinking water safety, are clearly identified and actions to be taken in each situation are defined; and • action is taken by responsible parties as required. (Recommendation 5.69 of the 2005 September Report of the Commissioner of the Environment and Sustainable Development, Chapter 5)	Unsatisfactory

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory –Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

federal organizations have not taken significant direct actions to remediate mould contamination, although they have made efforts to increase awareness and training.

4.36 We audited housing in 2003. We noted then that INAC estimated a shortage of about 8,500 housing units on reserves. We also noted that about 44 percent of the existing housing required renovations. We raised many issues in the audit and followed up on them in 2006. We found progress in some areas, such as the implementation of a housing policy, but we also found an ongoing serious problem of mould in many houses on reserves. In 2003, INAC, Health Canada, and CMHC committed to taking action to address mould. Despite this, our 2006 audit found that all three federal organizations had not acted. They had neither assessed the extent of the mould problem nor taken responsibility for developing a comprehensive strategy to address it.

4.37 In this audit, we re-examined the extent of the housing shortage and the number of houses in need of significant renovations to protect the occupants' health and safety. We also examined whether INAC, Health Canada, and CMHC had implemented our recommendation to develop and implement a mould strategy.

4.38 Housing construction and renovations. We found that INAC and CMHC have made new investments in housing since our 2003 and 2006 audits (Exhibit 4.3).

Exhibit 4.3 INAC and CMHC have made significant investments in housing on reserves

Investments in housing	
Funding ($ billions)	1.486
Number of new units constructed	5,362
Number of units receiving major renovations	13,016

Note: The figures shown are cumulative from April 2004 to March 2009. We did not audit them.

Source: INAC and CMHC data

4.39 We note, however, that the investments have not kept pace with either the demand for new housing or the need for major renovations to existing units. According to unaudited data provided by INAC, the housing shortage on reserves has worsened since our 2003 audit because of increases in the demand for housing, the number of housing units having to be replaced, and the number of units requiring significant renovations for health and safety reasons. At the same time, since 2003, the average cost to build or renovate each house has risen significantly (Exhibit 4.4). In the 2008–09 fiscal year, new houses constructed on reserves amounted to only 30 percent of the existing houses that needed to be replaced.

Exhibit 4.4 Housing requirements and costs have risen

Housing requirements	Fiscal year 2003–04	Fiscal year 2008–09	Increase
Demand for housing on reserves	5,500	20,000+	135+ %
Housing units requiring replacement	5,199	5,480	5%
Housing units requiring major renovations	16,878	23,586	40%
Average cost per house (constructed or significantly renovated)	$42,750	$64,000	50%

Note: We did not audit the figures shown.

Source: INAC data and calculations based on that data

4.40 INAC also administers a loan guarantee program for housing. Because the land on reserves belongs to the Crown, lending institutions cannot secure loans by conventional mortgages. The loan guarantee program enables individual First Nations members to obtain secured loans from lending institutions so that they can construct new homes or purchase existing ones. The program secured guarantees for an additional 400 individual home loans between April 2004 and March 2009. We also note that Budget 2007 set aside $300 million to support the development of individual home ownership on reserves.

4.41 **Mould.** In 2003, we recommended that INAC, Health Canada, and CMHC, in consultation with First Nations, develop a comprehensive strategy and action plan to address the problem of mould on reserves. The three organizations agreed with the recommendation. In our 2006 follow-up audit, we found that the recommendation had not been implemented.

4.42 In this audit, we found that progress was still not satisfactory. After consultations with First Nations, in 2008 the three organizations developed and approved a National Strategy to Address Mould in First Nations Communities. CMHC considers that the mould strategy is comprehensive because it involves the key parties, including First Nations and the three federal organizations; it also outlines respective roles, provides information on how to address mould, and promotes existing programs that can be used for mould prevention and remediation.

4.43 Since adoption of the strategy, the organizations have worked to increase awareness of the causes of mould on reserves and provide more training for addressing the problem. For example, Health Canada developed awareness materials, such as a poster and booklet; it also tracks the number of visitors to its website. However, we found that the three federal organizations had not allocated additional funding to address mould as a result of the strategy, had not determined the magnitude of the problem, had not estimated the costs to remediate existing mould, had not completed most action items in the strategy, and had not met the strategy's timelines. Moreover, because the organizations had not developed performance indicators, they did not know whether the strategy was making a difference. We also note that the strategy focuses on education to prevent mould but does not address remediation of houses that are already contaminated. Further, the strategy does not address overcrowding, which contributes significantly to the problem of mould on reserves.

4.44 We note as well that the mould strategy has not been directly linked to renovation funding, although it provides for INAC and CMHC to help First Nations identify resources available from other sources to address mould. Nonetheless, some of the funding for renovating homes on reserves can be used to address mould while work is proceeding on other renovation projects. INAC and CMHC have funded the renovations of over 13,000 housing units on reserves since our 2003 audit (Exhibit 4.3). The federal government has committed an additional $400 million over two years under Canada's Economic Action Plan to build and renovate housing on reserves. Many of the renovations may have addressed mould issues, but the Department does not track remediation actions to address mould.

4.45 The adequacy of housing on reserves can affect the health, education, and socio-economic outcomes of First Nations members. In this audit, we observed that, according to INAC data, the number of housing units constructed and renovated was not keeping pace with the need, and conditions were deteriorating. We also found that INAC, Health Canada, and CMHC have developed a strategy to address the problem of mould on reserves, but it is not funded and does not identify or deal with the cost of remediation requirements. While the organizations have provided education and health promotion activities under the strategy, First Nations members living on reserves may continue to experience negative impacts on their health and social conditions. Eight years after our recommendation to develop and implement a mould strategy, we assess federal organizations' progress as still unsatisfactory (Exhibit 4.5).

Exhibit 4.5 Progress on addressing a recommendation on housing

Recommendation	Progress
Indian and Northern Affairs Canada, Canada Mortgage and Housing Corporation, and Health Canada, in consultation with First Nations, should develop a comprehensive strategy and action plan to address the problem of mould on reserves. (Recommendation 6.48 of the 2003 April Report of the Auditor General of Canada, Chapter 6, Federal Government Support to First Nations—Housing on Reserves)	**Unsatisfactory**

Satisfactory – Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory – Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

INAC has taken action on child and family services but has not defined its policy commitment to provide comparable services

4.46 First Nations children are among the most vulnerable members of society. In 2008, we noted that over five percent of all children residing on reserves were in care; this was close to eight times the proportion of children residing off reserves. INAC has taken some actions to implement the two recommendations on which we followed up for this audit. Nevertheless, there has yet to be a notable change in the number of First Nations children in care.

4.47 In 2008, we audited INAC's program for child and family services on reserves. We found that INAC had not defined key policy requirements related to culturally appropriate child and family services and comparability of services with those provided by provinces. Moreover, the Department had no assurance that its First Nations Child and Family Services Program funded child welfare services that were culturally appropriate or reasonably comparable with those normally provided off reserves in similar circumstances. We also found that there was no link between the financial obligations of the program and the way resources were allocated to it. Because the program's expenditures were growing faster than the Department's overall budget, INAC had been reallocating funding from other programs. In our 2008 audit, we also noted that INAC had joined with the Government of Alberta and First Nations in that province to introduce a new child and family services program emphasizing prevention. This was a departure from the existing model, which focused on intervention with families and children at risk.

4.48 In this follow-up audit, we assessed the progress made by INAC to implement two of our recommendations from our 2008 audit on the Department's Child and Family Services Program. We also examined actions taken in relation to the government's commitment in response to a recommendation made by the House of Commons Standing Committee on Public Accounts.

4.49 **Comparability of services.** In our 2008 audit, we recommended that INAC define what is meant by its policy requirement that services be reasonably comparable, define its expectations for culturally appropriate services, and implement these into its program. INAC agreed with the recommendation and committed to a clearer definition, in tripartite agreements, of comparability of services with those provided by provinces. We found that INAC has not defined what is meant by comparability. Until it does so, it is unclear what is the service standard for which the Department is providing funding and what level

of services First Nations communities can eventually expect to receive. We also found that the Department had not conducted a review of all social services available in the provinces to see whether they are the same as what is available to children on reserves.

4.50 In our 2008 audit, we noted that INAC had entered into a new funding arrangement in Alberta, enabling First Nations child and family service agencies in that province to deliver services that comply with provincial legislation. However, we noted that the funding model under the new Alberta tripartite agreement did not address all of the funding disparities we had identified. Since that audit, INAC has expanded its Enhanced Prevention Focused Approach and has negotiated new tripartite framework agreements with five other provinces: Manitoba, Nova Scotia, Prince Edward Island, Quebec, and Saskatchewan. The new approach includes greater emphasis on prevention services and is intended to increase comparability with services offered in provinces. INAC officials expect that the approach will reduce the number of children in care, but it is too early to observe results.

4.51 The new tripartite agreements enable the provision of additional services beyond those offered in INAC's initial program. However, without having defined what is meant by comparability, the Department has been unable to demonstrate that its new Enhanced Prevention Focused Approach provides services to children and families living on reserves that are reasonably comparable to provincial services.

4.52 We also found that the Department has not developed a formal definition of what it means by "culturally appropriate services." In response to this recommendation, however, INAC has developed a guiding principle on what culturally appropriate services would entail. This principle has been embedded in the tripartite agreements with the provinces under the new approach. It is also reflected in the business plans of First Nations child and family service agencies. According to INAC, a guiding principle instead of a definition allows service providers to more readily adapt their programs to the culture in each community.

4.53 **Cost determination.** In 2008, we noted that the Department was regularly using funding budgeted for other programs to meet its obligations for its First Nations Child and Family Services Program. We also noted that the Department required a 74 percent increase in its operating and prevention services budget for Alberta to meet the requirements of the new tripartite agreement. We recommended that INAC determine the full costs of meeting the policy requirements of the program. The Department agreed to regularly update its estimate

of the cost of delivering the program with the new approach on a province-by-province basis and to periodically review the program budget.

4.54 In this audit, we found that the Department had identified the costs it would have to pay for services in each province before moving to the new Enhanced Prevention Focused Approach. For its operations and prevention services, INAC determined that it would require an incremental increase of between 50 percent and 100 percent in its funding for each of the provinces in which it has established tripartite agreements to date. With all cost components taken into consideration, on average, the agreements led to an increase of over 40 percent in the cost of INAC's Child and Family Services Program in the participating provinces.

4.55 Rather than using funds budgeted for other programs, INAC has obtained increased funding to run its Child and Family Services Program. The program's budget has increased by 32 percent from $417 million in the 2005–06 fiscal year to $550 million in 2009–10. This rise partly reflects the increased funding levels needed to implement the new framework agreements. The Department also regularly conducts budget reviews and has taken steps to minimize the financial impact of its Child and Family Services Program on other INAC programs.

4.56 **Cost comparisons.** The House of Commons Standing Committee on Public Accounts asked the Department for a comprehensive comparison of its funding to First Nations child and family welfare service agencies with provincial funding to similar agencies. The government committed to providing the Committee with a comparison of its funding for salaries and caseloads for the provinces that have made the transition to the new Enhanced Prevention Focused Approach.

4.57 In preparation for framework negotiations with the provinces, INAC compared some elements central to the operations of child and family services programs with those of the provinces, such as social workers' salaries and benefits. With this information, INAC provided to the Public Accounts Committee a comparison of some of its costs with those of the provinces that have established an agreement under the new approach. We note, however, that the Department has not provided information about social workers' caseloads to the Committee because this is not public information. Moreover, certain services provided by provinces are outside INAC's mandate—for example, services related to health issues and youth justice. The Department therefore does not provide these services. Our progress rating regarding child and family services is found in Exhibit 4.6.

Exhibit 4.6 Progress on addressing two recommendations on child and family services

Recommendation	Progress
Indian and Northern Affairs Canada, in cooperation with provinces and First Nations agencies, should • define what is meant by services that are reasonably comparable, • define its expectations for culturally appropriate services and standards, and • implement this definition and these expectations into the program. (Recommendation 4.26 of the 2008 May Report of the Auditor General of Canada, Chapter 4, First Nations Child and Family Services Program—Indian and Northern Affairs Canada)	Unsatisfactory
Indian and Northern Affairs Canada should determine the full costs of meeting the policy requirements of the First Nations Child and Family Services Program. It should periodically review the program's budget to ensure that it continues to meet program requirements and to minimize the program's financial impact on other departmental programs. (Recommendation 4.74 of the 2008 May Report of the Auditor General of Canada, Chapter 4)	Satisfactory

Satisfactory Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

INAC has improved processes for implementing comprehensive land claim agreements but it is too early to identify impacts

4.58 Comprehensive land claim agreements are intended to provide clarity and certainty with respect to ownership and use of land and resources, and to put in place structures for managing development. Negotiating these agreements is a major undertaking that can take decades. Managing the agreements afterwards requires ongoing commitment and vigilance by all parties. INAC is responsible for managing the federal responsibilities set out in the agreements and for monitoring the results achieved. In past audits, we have noted that INAC was not committed to the spirit and intent of the agreements and sometimes did not fulfill Canada's obligations under them. In this audit, we found that INAC has taken steps toward meeting the spirit and intent of comprehensive land claim agreements, although more attention is still required.

4.59 In 2003, we audited the federal implementation of comprehensive land claim agreements with the Gwich'in in the

Northwest Territories and the Inuit of Nunavut. In 2007, we audited the federal government's implementation of its obligations related to the Inuvialuit Final Agreement. In these audits, we found that INAC and other federal departments were not implementing some key federal obligations. Moreover, we found that departments were considering only the letter of their land claim implementation responsibilities, not the spirit or intent of the agreements. In 2007, INAC officials described the principles of the Inuvialuit Final Agreement as being only Inuvialuit goals, not something to which the Government of Canada adheres. We also found that INAC was not coordinating activities to implement federal land claim obligations that were the responsibility of other departments, notably obligations related to contracting provisions.

4.60 In this follow-up audit, we assessed the progress made by INAC on four previous recommendations that appeared in two audits we completed in 2003 and 2007 concerning the Nunavut, Gwich'in, and Inuvialuit comprehensive land claim agreements. We reviewed departmental documentation and interviewed INAC officials and claimant group representatives. We also reviewed and tested a new departmental database for tracking land claim obligations.

4.61 **Spirit and intent.** In 2003, we noted that INAC was not considering the spirit and intent of the comprehensive land claim agreements we examined. We recommended that INAC focus not only on obligations but also on results. In this audit, we found that INAC is beginning to take into account the spirit and intent of comprehensive land claim agreements. This was particularly evident in the Department's actions to monitor and achieve the objectives of agreements. Since our 2003 and 2007 audits, INAC has developed guidance indicating that a broader interpretation of the Government of Canada's obligations under comprehensive land claim agreements is appropriate. The guidance states that since the Government of Canada has signed land claim agreements, it must work with other signatories to fulfill federal obligations and make progress toward mutually shared goals. INAC implementation officials have also indicated the importance of focusing on the treaty relationship to achieve progress toward the common goals of the agreements. For example, after the completion of a study on economic opportunities with Inuvialuit communities, INAC is now working with the Inuvialuit to explore other means of achieving the economic objectives of the Inuvialuit Final Agreement.

4.62 We noted that the Deputy Minister had written to other departments to inform them of the approach to implementing modern

treaties and INAC's objective of improving interdepartmental coordination. However, at the time of our audit, INAC was still finalizing this guidance and had not communicated it formally to officials in other departments with responsibilities for implementing land claim agreements; nor had it developed any training for federal officials to ensure consistent implementation of the new approach. INAC had also not formally communicated the new approach to claimant groups. Some claimant group representatives told us that they have yet to see a significant change in the Department's willingness to work toward achieving the objectives of comprehensive land claim agreements.

4.63 **Measuring performance.** In our 2003 audit, we recommended that INAC provide measurable milestones and targets to gauge progress. Similarly, in our 2007 audit, we recommended that INAC develop performance indicators to measure progress toward meeting the principles of the Inuvialuit Final Agreement, and that it publicly monitor and report progress achieved. The Department undertook to propose performance indicators at a future implementation committee meeting, and to begin monitoring and reporting in spring 2008.

4.64 We found that INAC has developed performance indicators to measure progress toward meeting the broader objectives of comprehensive land claim agreements. The Department has also conducted an evaluation of results achieved through the agreements. The evaluation reviewed progress realized toward six broad areas of focus from four agreements, including the Inuvialuit Final Agreement. It did not assess achievement of objectives of individual agreements but instead considered the impact that agreements are having overall. For example, the evaluation concluded that comprehensive land claim agreements have made an important contribution to Aboriginal business development and that regulatory regimes established through the agreements have led to the development of collaborative, consensus-based decision-making processes. INAC officials told us that they plan to evaluate the impacts of land claim agreements every five years.

4.65 **Coordinating federal obligations.** In our 2003 audit, we recommended that INAC strengthen its coordinating framework to ensure that the Government of Canada meets federal responsibilities under land claim agreements. The Department undertook to continue working with an interdepartmental steering committee to ensure that land claim implementation issues are brought to the attention of senior officials in federal departments. We found that INAC has since led the development of an implementation management framework for comprehensive land claim agreements. The framework is applied by

regional and federal working groups of officials from various departments, as well as the interdepartmental steering committee of senior management chaired by INAC. These structures are intended to facilitate interaction between federal officials at the regional, headquarters, and senior management levels. The responsibilities of the working groups include

- providing guidance to federal officials and helping them in their implementation roles,
- coordinating activities between and within departments, and
- monitoring and reporting on the implementation of federal obligations.

We noted, however, that some tools to support the framework are not yet complete.

4.66 We also found that improvements have been made to the process for implementing the federal contracting provisions of comprehensive land claim agreements, an area of concern identified in previous audits. In 2008, the Treasury Board of Canada revised its policy to clarify departments' obligations when contracting within land claim jurisdictions. With this guidance, INAC now leads public reporting of federal procurement activities in land claim settlement areas across the country. We found that the Department has also undertaken initiatives to better educate other departments on contracting provisions within land claim jurisdictions. The Canada School of Public Service has developed a training course on procurement within land claim areas, with enrolment open to all procurement officers across the federal government.

4.67 **Implementing obligations.** In 2007, we recommended that INAC identify each of Canada's obligations under the Inuvialuit Final Agreement, identify the appropriate federal organizations to address them and clearly communicate the obligations to these organizations, develop a plan to implement the obligations, and regularly monitor and report to other signatories about Canada's fulfillment of its obligations. INAC undertook to develop a strategy for communicating obligations to other federal organizations by March 2008, and to monitor and report on progress in fulfilling Canada's obligations to other signatories of the agreement.

4.68 To monitor progress toward fulfilling Canada's obligations under comprehensive land claim agreements, INAC developed a new electronic data capture system in 2010. The system is designed to monitor the status of all federal government land claim obligations.

We randomly selected 10 obligations from two land claim agreements to determine the information about them captured in the database. We found that the database succeeded in capturing most of the obligations we examined, along with their status. At the time of our audit, however, the Department was still finalizing data accuracy and some of the database's reporting functions.

4.69 We randomly selected five federal obligations from each of the Gwich'in and Inuvialuit land claim agreements involving other departments' responsibilities; we sought to determine whether INAC had clearly communicated to those departments the responsibilities of each. We found that INAC had not communicated these specific obligations to other federal departments. It did not have a plan in place to ensure the fulfillment of their obligations under the agreements, and it had not monitored whether the departments had fulfilled their obligations.

4.70 It is important to meet Canada's obligations under land claim agreements and to monitor progress toward the agreements' objectives. Doing so will ensure that claimant groups receive the benefits agreed to under the agreements. Since 2007, INAC has made progress in providing guidance to other departments about the implementation of land claim agreements and has begun to evaluate their results. The Department has also begun to monitor progress toward fulfilling specific federal obligations (Exhibit 4.7). Continuing cooperation will be required to maintain progress in this area and realize the socio-economic and community improvements that comprehensive land claim agreements are intended to provide.

INAC's streamlining efforts have not lessened the burden of reporting requirements for First Nations

4.71 The federal government has established many programs and services for First Nations communities. Most of them are delivered through funding arrangements such as contribution agreements that require the submission of reports to obtain funding and to account for funds used. Reporting requirements established by federal organizations can be a significant burden, especially for the many communities that have fewer than 500 residents. INAC and the Treasury Board of Canada Secretariat began efforts to streamline reporting by First Nations communities but the efforts have not been sustained.

Exhibit 4.7 Progress on addressing four recommendations on comprehensive land claim agreements

Recommendation	Progress
Indian and Northern Affairs Canada should amend the land claim obligation system (LCOS) database to ensure that it focuses not only on obligations but also on results and that it provides measurable milestones and targets to gauge progress. (Recommendation 8.63 of the 2003 November Report of the Auditor General of Canada, Chapter 8, Indian and Northern Affairs Canada—Transferring Federal Responsibilities to the North)	Satisfactory
In cooperation with the Inuvialuit, and with the Yukon and Northwest Territories governments, Indian and Northern Affairs Canada should develop performance indicators to measure progress towards meeting the principles of the *Inuvialuit Final Agreement*, and should publicly monitor and report progress to other signatories. (Recommendation 3.85 of the 2007 October Report of the Auditor General, Chapter 3, Inuvialuit Final Agreement)	Satisfactory
Indian and Northern Affairs Canada should strengthen its coordinating framework to ensure that the Government of Canada meets federal responsibilities under the land claims agreements. (Recommendation 8.77 of the 2003 November Report of the Auditor General of Canada, Chapter 8)	Satisfactory
Indian and Northern Affairs Canada should develop a strategic approach towards implementing Canada's obligations under the *Inuvialuit Final Agreement*. Such an approach should, at a minimum • identify each of Canada's obligations and the appropriate federal organizations to address them, and should clearly communicate their obligations to these federal organizations; • develop a plan to implement federal obligations; and • regularly monitor and report to other signatories Canada's fulfillment of its obligations. (Recommendation 3.76 of the 2007 October Report of the Auditor General of Canada, Chapter 3)	Unsatisfactory

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

4.72 In 2002, we looked at the amount of reporting required of First Nations by federal organizations. We estimated that four federal organizations together required about 168 reports annually from each First Nations reserve. We found that many of the reports were unnecessary and were not in fact used by the federal organizations. We followed up on this issue in 2006. At that time, we found that federal

departments had made little progress on meeting our recommendations to reduce reporting requirements. In our 2006 follow-up audit, we reported that INAC's officials told us that the Department obtained more than 60,000 reports a year from over 600 First Nations communities. The Treasury Board of Canada Secretariat analyzed the extent of federal involvement with First Nations and confirmed the seriousness of the problem we had identified in 2002.

4.73 In this follow-up audit, we reviewed the steps taken by the Treasury Board of Canada Secretariat and INAC to streamline reporting requirements for recipients of federal funding, including First Nations communities. We also assessed the progress made to implement one of our 2002 recommendations.

4.74 **Streamlining reporting throughout the government.** In June 2006, the President of the Treasury Board commissioned an independent panel to review and recommend ways of simplifying the administration of grants and contributions. Later that year, the panel identified a need for the federal government to dramatically simplify its reporting and accountability regime related to grant and contribution agreements. It recommended that the Treasury Board and departments modify their monitoring and recipient reporting requirements to avoid duplication or redundancy, and ensure that requirements are clearly connected to a demonstrable need.

4.75 The Treasury Board of Canada Secretariat responded in 2008 by issuing the Government of Canada Action Plan to Reform the Administration of Grant and Contribution Programs. This commits the government to reducing recipients' administrative and reporting burden. The Secretariat created a new centre of expertise to lead and coordinate the implementation of the action plan. One of its elements was a call for departments to develop an action plan to improve the delivery and efficiency of grants and contributions. Another element was the issuing of the revised Policy on Transfer Payments and new Directive, both of which came into effect in 2008. Under the revised policy, deputy heads are responsible for ensuring that the administrative requirements for recipients are proportionate to the risk level. Departments should determine reporting requirements after performing a risk assessment. Departments needed to have a system for conducting risk assessments in place by March 2010. INAC officials told us that the Department received verbal approval to extend this date to 2011. The Secretariat does not monitor efforts to reduce the reporting burden since it considers this to be the responsibility of deputy heads as the chief accounting officers of their departments.

4.76 We found that at the time of our audit, INAC had yet to finalize a process for assessing risks associated with contribution agreements. Consequently, the Department has yet to determine the level of reporting requirements most appropriate to each First Nation, as required under the 2008 Transfer Payment Policy.

4.77 **INAC reporting initiatives.** In 2002, we recommended that the federal government regularly review its reporting requirements, determine reporting needs when new programs are set up, and drop unnecessary or duplicative reporting. The government agreed that reporting should be administratively efficient and rationalized across the federal government. It committed to reviewing reporting requirements individually at the departmental level and collectively as a government-wide initiative. We found that INAC started data collection review efforts in 2003, but these ended in 2007. The aim of the review was to understand the rationale for reporting requirements, including the extent of the reporting burden on First Nations. The efforts resulted in the creation of the Data Collection Policy in 2004.

4.78 In this audit, we found that INAC sought to better understand its estimate of 60,000 reports required yearly from First Nations. To arrive at this estimate, INAC had counted all reports under all of its previous regional data systems related in some way to grants and contributions. The total included many reports not directly required under contribution agreements, such as a requirement to give INAC updates about all changes to the First Nations population on each reserve, including births, deaths, and moves.

4.79 **Continuation of other initiatives.** In 2007, INAC started the Smart Reporting Initiative to focus on performance measurement, with the aim of determining what information was actually required for management and accountability purposes. In June 2010, the Deputy Minister named a special representative to lead another initiative to reduce reporting requirements.

4.80 **Electronic system to streamline reporting.** In 2006, INAC implemented an electronic system for the management of transfer payments: the First Nations and Inuit Transfer Payment System (FNITP). The system was designed partly to reduce the reporting burden by allowing First Nations to submit their reports electronically and allowing the Department to streamline administrative processes.

4.81 We found that the system has led to a streamlining of some reporting requirements. It ensures that reporting requirements related to funding agreements include only those stipulated in the provisions

of the agreements. The Department was able to identify several reports that were eliminated and others that were reduced, a result officials attributed partly to the introduction of the FNITP. For example, INAC's National Reporting Guide for 2009–10 notes that INAC has eliminated 9 national reports, 7 regional reports, and fields in 12 other reports. Within the system, there are also procedures in place for capturing and managing information on funding agreements to ensure compliance with financial authorities.

4.82 INAC provided some training to First Nations on using the FNITP, but many cannot take advantage of the system because of limited capacity and high staff turnover. At the time of our audit, 334 of approximately 700 First Nations and tribal councils had access to the FNITP; 228 of these were regularly using the system. For First Nations and tribal councils without access to the FNITP, INAC continues to receive reports separately and enters the information into the system manually.

4.83 **Recently increased report requirements.** Despite many initiatives, we have not seen a significant reduction in the reporting burden. We were able to track the number of reports actually required from First Nations since the introduction of the FNITP because it stores all reporting related to contribution agreements. The number of required reports increased from 30,000 in the 2007–08 fiscal year to 32,000 in 2009–10. The increase may be attributable to new accountability demands across government and new programs available to First Nations. First Nations officials with whom we spoke also told us that they had not seen a reduction in reporting requirements since our last audit, and many indicated that the reporting burden has increased in recent years.

4.84 INAC developed a Data Collection Policy in 2004 and drafted related guidance in 2007. The policy called for reporting requirements to be assessed before programs were renewed or new programs were set up. We examined the program approval process for six programs developed or renewed between April 2007 and March 2010 to determine whether this assessment had been conducted. We found that the policy had not been applied in the majority of these programs, and reporting requirements were not reviewed when programs were set up or renewed.

4.85 As we mentioned in the preface, we remain concerned about the burden associated with the federal reporting requirements, particularly related to INAC's contribution agreements with First Nations. Many initiatives with the potential to streamline reporting have been started but have not resulted in meaningful improvement. INAC does not

apply the Data Collection Policy and has not conducted all of the risk assessments of First Nations recipients, as required by the new federal Transfer Payment Policy. Thus, it remains unclear whether this degree of reporting helps make First Nations accountable, or whether it assists either the Department or First Nations with their management responsibilities. First Nations continue to spend time and resources to complete reports for INAC, but some of these reports may serve little purpose and may interfere with First Nations' ability to meet the needs of their members. Our progress rating regarding reporting requirements is found in Exhibit 4.8.

Exhibit 4.8 Progress on addressing a recommendation on reporting requirements

Recommendation	Progress
The federal government should consult with First Nations to review reporting requirements on a regular basis and to determine reporting needs when new programs are set up. Unnecessary or duplicative reporting requirements should be dropped. (Recommendation 1.61 of the 2002 December Report of the Auditor General of Canada, Chapter 1, Streamlining First Nations Reporting to Federal Organizations)	Unsatisfactory

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

4.86 Recommendation. Indian and Northern Affairs Canada, in consultation with relevant federal organizations, should develop implementation plans for the recommendations on which progress to date has been unsatisfactory or incomplete. The plans should include specific goals, targets, action items, timelines for achieving results, and indicators for measuring progress.

The Department's response. Agreed. INAC agrees to develop implementation plans as recommended, with the following understandings in relation to specific areas:

- The First Nation Student Success Program and the Education Partnerships Program are part of the Reforming First Nation Education Initiative that was launched in 2008 to set the foundation for long-term improvement in education outcomes. Tripartite agreements are in place in seven provinces, including a sub-regional agreement with Saskatchewan and an implementation-ready tripartite K–12 partnership in British Columbia.

- INAC supports Health Canada's efforts respecting drinking water and cooperates fully.
- A strategy to address the problem of mould on reserves is being advanced through the existing Indoor Air Quality Committee with representatives from the Canada Mortgage and Housing Corporation, Health Canada, and the Assembly of First Nations, as well as through enhanced funding as opportunities arise.
- On child and family services, considerable progress has been made on defining comparability while respecting differences between jurisdictions. The guiding principle that First Nations themselves are best suited to define culturally appropriate services is now incorporated in all tripartite discussions, as is the matter of culturally appropriate placement options.
- In relation to the implementation and monitoring of the Inuvialuit Final Agreement and other agreements, progress is being made through the development of the Treaty Obligation Monitoring System (TOMS). In the last year, TOMS was presented to other government departments through regional caucuses in the Atlantic Region, Quebec, and the Northwest Territories, and plans are under way for similar presentations across the rest of the country. TOMS will be made accessible online to other departments over the next year. In addition, the Deputy Minister has communicated to colleagues the importance of their active engagement in implementation. Implementation working groups support efforts by colleagues in other departments to collaborate on implementation at the national or regional level. Guidelines are being developed to provide information and direction on critical issues such as alternative dispute resolution.
- In relation to reporting requirements, consultations with First Nations and all stakeholders regarding this matter are ongoing through a recently created senior management position, reporting directly to the Deputy Minister.

Conclusion

4.87 The federal government supports many services to First Nations that provinces and municipalities provide to people off reserves. In reports to Parliament during the past decade, the Office of the Auditor General published 16 chapters directly addressing First Nations and Inuit issues, and made 91 recommendations to Indian and Northern

Affairs Canada (INAC) and other federal organizations to address a wide range of issues. This audit followed up on 12 of the recommendations.

4.88 We found that INAC has made satisfactory progress in implementing some of our recommendations. The Department has demonstrated greater commitment to meeting the spirit and intent of land claim agreements and measuring their impacts. INAC has also strengthened its coordinating framework so that other federal organizations understand their obligations under the agreements. INAC has assessed the costs of delivering education services on reserves and compared these with provincial costs. INAC and Health Canada have drafted legislation to provide a statutory basis for ensuring safe drinking water on reserves, but it may be years before regulations are in place.

4.89 Notwithstanding all the actions taken and efforts made, we found that INAC, the Canada Mortgage and Housing Corporation, and Health Canada have not made satisfactory progress in implementing several of our recommendations. The recommendations relate to some of the most important issues of concern to First Nations, including education, housing, child and family services, and administrative reporting requirements. The three federal organizations have made repeated commitments to action. Nevertheless, we found that those commitments and subsequent actions have often not resulted in improvements. In some cases, conditions have worsened since our earlier audits: the education gap has widened, the shortage of adequate housing on reserves has become more acute, and administrative reporting requirements have become more onerous.

4.90 Although the federal government has taken action on many of the issues covered in this audit, we note that it has not been an easy task to address these complex issues. Further, conditions on reserves have not improved much in the last decade. We believe that structural problems have inhibited greater progress toward improving the lives and well-being of those living in First Nations reserves. In the preface of this chapter, we discuss some of the problems.

About the Audit

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Objectives

The overall audit objective was to determine whether Indian and Northern Affairs Canada (INAC), Health Canada, the Canada Mortgage and Housing Corporation (CMHC), and the Treasury Board of Canada Secretariat have made satisfactory progress in addressing key observations and implementing key recommendations on First Nations programs from previous chapters related to Aboriginal issues appearing in reports of the Office of the Auditor General.

The sub-objectives were to determine whether

- Indian and Northern Affairs Canada has made satisfactory progress in addressing key observations and implementing key recommendations on First Nations education programs from our 2004 November Report, Chapter 5, Indian and Northern Affairs Canada—Education Program and Post-Secondary Student Support;
- Indian and Northern Affairs Canada has made satisfactory progress in addressing key observations and implementing key recommendations from our 2008 May Report, Chapter 4, First Nations Child and Family Services Program—Indian and Northern Affairs Canada;
- Indian and Northern Affairs Canada, Health Canada, and the Canada Mortgage and Housing Corporation have made satisfactory progress in addressing key observations and implementing key recommendations from our 2003 April Report, Chapter 6, Federal Government Support to First Nations—Housing on Reserves;
- Indian and Northern Affairs Canada and Health Canada have made satisfactory progress in addressing key observations and implementing key recommendations from the 2005 September Report of the Commissioner of the Environment and Sustainable Development, Chapter 5, Drinking Water in First Nations Communities;
- Indian and Northern Affairs Canada and the Treasury Board of Canada Secretariat have made satisfactory progress in addressing key observations and implementing key recommendations from our 2002 December Report, Chapter 1, Streamlining First Nations Reporting to Federal Organizations; and
- Indian and Northern Affairs Canada has made satisfactory progress in addressing key observations and implementing key recommendations on First Nations land claims from our 2003 November Report, Chapter 8, Indian and Northern Affairs Canada—Transferring Federal Responsibilities to the North, and our 2007 October Report, Chapter 3, Inuvialuit Final Agreement.

Scope and approach

The entities included in this follow-up audit are Indian and Northern Affairs Canada, Health Canada, the Canada Mortgage and Housing Corporation, and the Treasury Board of Canada Secretariat. INAC is the federal department primarily responsible for meeting the Government of Canada's obligations and commitments to First Nations, and was included in all the audit lines of enquiry. Health Canada was included for its role in drinking water on reserves and in addressing health considerations in housing on reserves, such as mould. The Canada Mortgage and Housing Corporation was included for its role in addressing the housing shortage, improving housing conditions, and addressing the mould issue in on-reserve housing. Since past recommendations about streamlining reporting had been addressed to the federal government, the Treasury Board of Canada Secretariat was also part of the audit. We obtained and reviewed related documentation and interviewed officials from the four entities to assess progress in implementing past recommendations.

For the representative sample in the water section, we selected the three regions with the most water advisories and randomly sampled within those regions. Our examination of land claim obligations relied on random selections.

While First Nations were not subject to audit, we visited selected First Nations reserves and organizations to obtain their perspectives on progress made since we conducted our audits.

Criteria

To determine whether Indian and Northern Affairs Canada (INAC), Health Canada, the Canada Mortgage and Housing Corporation (CMHC), and the Treasury Board of Canada Secretariat have made satisfactory progress in addressing key observations and implementing key recommendations on First Nations programs from previous chapters related to Aboriginal issues appearing in reports of the Office of the Auditor General, we used the following criteria:

Criteria	Sources
Education	
Indian and Northern Affairs Canada (INAC), in consultation with First Nations, has developed and implements a strategy and action plan, with targets, to close the education gap. It also reports progress to Parliament and to First Nations on a timely basis.	• 2004 November Report of the Auditor General of Canada, Chapter 5, recommendation 5.33 • INAC's response to 2004 November recommendation 5.33 • Education Action Plan, INAC, 2005 • Report on Plans and Priorities, 2009–10, INAC
INAC obtains information on the costs of delivering education services on reserves and compares the costs with those of providing comparable education services in the provinces.	• 2004 November Report of the Auditor General of Canada, Chapter 5, recommendation 5.51 • INAC's response to 2004 November recommendation 5.51 • Education Action Plan, INAC, 2005
INAC reviews its post-secondary funding mechanisms, including the use of flexible transfers that are designed to deliver equitable funding to as many eligible students as possible.	• June 2005 Report of the Standing Committee on Public Accounts (PAC), recommendation 11 (related to Auditor General's 2004 November Report, Chapter 5, recommendation 5.94 • Government response to the 2005 PAC Report • Action Plan for the 2009 Internal Audit on the Post-Secondary Education Program, INAC

Criteria	Sources
Child and family services	
INAC, in cooperation with provinces and First Nations agencies, • defines what is meant by services that are reasonably comparable, • defines its expectations for culturally appropriate services and standards, and • implements this definition and these expectations into the program.	• 2008 May Report of the Auditor General of Canada, Chapter 4, recommendation 4.26 • INAC's response to 2008 May recommendation 4.26 • National Program Manual, First Nations Child and Family Services
INAC determines the costs of meeting the policy requirements of the First Nations Child and Family Services Program. It then periodically reviews the program's budget to ensure that it continues to meet program requirements and minimizes the program's financial impact on other departmental programs.	• 2008 May Report of the Auditor General of Canada, Chapter 4, recommendation 4.74 • INAC's response to 2008 May recommendation 4.74 • Policy on Management, Resources and Results Structure (sections 5.2.1 and 5.2.2), Treasury Board, 2010 • National Program Manual, First Nations Child and Family Services
INAC conducts a comparison of its funding to First Nations child and family welfare services agencies to provincial funding of similar agencies.	• March 2009 Report of the Standing Committee on Public Accounts, recommendation 2; 2008 May Report of the Auditor General, Chapter 4, recommendations 4.26 and 4.74 • Government response to PAC Report • National Program Manual, First Nations Child and Family Services

Criteria	Sources
Housing	
INAC and Canada Mortgage and Housing Corporation (CMHC) take action to reduce the housing shortage that existed in 2003.	• 2003 April Report of the Auditor General of Canada, Chapter 6, paragraph 6.1 • Report on Plans and Priorities, 2007–08, INAC • Budget 2005
INAC and CMHC take action to reduce the percentage of houses requiring renovations.	• 2003 April Report of the Auditor General of Canada, Chapter 6, paragraph 6.1 • Report on Plans and Priorities, 2007–08, INAC • Budget 2005
INAC, CMHC, and Health Canada, in consultation with First Nations, develop a strategy and action plan to address the problem of mould on reserves.	• 2003 April Report of the Auditor General of Canada, Chapter 6, recommendation 6.48 • Responses from the three organizations to 2003 April recommendation 6.48 • Terms of Reference of the Interdepartmental Committee on Mould

Criteria	Sources
Drinking water	
INAC and Health Canada, in consultation with First Nations, develop and implement a regulatory regime for drinking water in First Nations communities. This regime is comparable with that in provinces and designed to protect the health and safety of First Nations people. As a minimum, this regime deals with roles and responsibilities, water quality requirements, technical requirements, certification of systems and operators, compliance and enforcement, and public reporting requirements.	• 2005 September Report of the Commissioner of the Environment and Sustainable Development, Chapter 5, recommendation 5.36 • Departments' responses to 2005 September recommendation 5.36 • 2010 Speech from the Throne
Health Canada, in consultation with INAC and First Nations, ensures that • drinking water tests recommended under the Guidelines for Canadian Drinking Water Quality are being carried out; • test results are properly recorded and relevant information is shared with appropriate parties; • it identifies and defines actions to be taken in situations where drinking water is not safe, or where there is no assurance of drinking water safety; and • actions are taken by responsible parties as required.	• 2005 September Report of the Commissioner of the Environment and Sustainable Development, Chapter 5, recommendation 5.69 • Departments' responses to 2005 September recommendation 5.69 • Procedure Manual for Safe Drinking Water in First Nations Communities South of 60°, Health Canada. • Protocol for Safe Drinking Water in First Nations Communities, INAC
INAC reduces the number of drinking water systems in First Nations communities posing a significant risk to the quality or the safety of drinking water.	• 2005 September Report of the Commissioner of the Environment and Sustainable Development, Chapter 5, paragraph 5.13 • Report on Plans and Priorities, 2006–07, INAC, page 31
Criteria	**Sources**
Reporting requirements	
INAC and the Treasury Board of Canada Secretariat review reporting requirements of contribution programs and eliminate unnecessary or duplicative reporting requirements.	• 2002 December Report of the Auditor General of Canada, Chapter 1, recommendation 1.61 • Government's response to 2002 December recommendation 1.61 • Data Collection Policy, INAC, 2004 • Policy on Transfer Payments, sections 6.5.5 and 6.5.10, Treasury Board, 2008 • News release, 14 February 2007: Canada's New Government Acting to Improve Grant and Contribution Programs, Treasury Board of Canada Secretariat
INAC has systems and processes to capture, manage, and assess whether First Nations reports in a timely manner.	• Directive on Transfer Payments, section 6.5.2, Treasury Board, 2008 • Directive on Recordkeeping, sections 5.1.1 and 6.1.3, Treasury Board, 2009 • Policy on Information Management, section 5.2.3, Treasury Board, 2007

INAC, in consultation with First Nations, reviews reporting requirements to determine reporting needs when new programs are set up and requires only information that is needed for management or accountability purposes.	• 2002 December Report of the Auditor General of Canada, Chapter 1, recommendation 1.61 • Government's response to 2002 December recommendation 1.61 • Data Collection Policy, INAC, 2004
Criteria	**Sources**
Land claims	
INAC has a system that monitors both land claim obligations and land claim results. The system also provides measurable milestones and targets to gauge progress.	• 2003 November Report of the Auditor General of Canada, Chapter 8, recommendation 8.63 • INAC's response to 2003 November recommendation 8.63 • Results for Canadians: A Management Framework for the Government of Canada, Treasury Board of Canada Secretariat, 2000
INAC's coordinating framework is designed to ensure that the Government of Canada meets federal responsibilities under land claims agreements.	• 2003 November Report of the Auditor General of Canada, Chapter 8, recommendation 8.77 • INAC's response to 2003 November recommendation 8.77 • Implementation of comprehensive land claim and self-government agreements: A handbook for the use of federal officials, INAC, 2003
INAC develops a strategic approach toward implementing Canada's obligations under the Inuvialuit Final Agreement. Such an approach, at a minimum, • identifies each of Canada's obligations and the appropriate federal organizations to address them, and communicates their obligations to these federal organizations; • develops a plan to implement federal obligations; and • monitors and reports to other signatories Canada's fulfillment of its obligations.	• 2007 October Report of the Auditor General of Canada, Chapter 3, recommendation 3.76 • INAC's response to 2007 October recommendation 3.76 • INAC's mandate as lead federal organization for implementation • Memoranda to Cabinet, 1984–85 • Implementation of comprehensive land claim and self-government agreements: A handbook for the use of federal officials, INAC, 2003 • Results for Canadians: A Management Framework for the Government of Canada, Treasury Board of Canada Secretariat, 2000
In cooperation with the Inuvialuit, and with the Yukon and Northwest Territories governments, INAC develops performance indicators to measure progress toward meeting the principles of the Inuvialuit Final Agreement, and publicly monitors and reports progress to other signatories.	• 2007 October Report of the Auditor General of Canada, Chapter 3, recommendation 3.85 • INAC's response to 2007 October recommendation 3.85 • Memoranda to Cabinet, 1984 • Results-based Management and Accountability Framework, INAC, 2001 • Comprehensive Land Claims Policy, INAC, 1986

Management reviewed and accepted the suitability of the criteria used in the audit.

Period covered by the audit

The audit covered the years 2002 to 2010. Audit work for this chapter was substantially completed on 1 November 2010.

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Appendix List of recommendations

The following is the recommendation found in Chapter 4. The number in front of the recommendation indicates the paragraph where it appears in the chapter.

Recommendation	Response
4.86 Indian and Northern Affairs Canada, in consultation with relevant federal organizations, should develop implementation plans for the recommendations on which progress to date has been unsatisfactory or incomplete. The plans should include specific goals, targets, action items, timelines for achieving results, and indicators for measuring progress.	Agreed. INAC agrees to develop implementation plans as recommended, with the following understandings in relation to specific areas: • The First Nation Student Success Program and the Education Partnerships Program are part of the Reforming First Nation Education Initiative that was launched in 2008 to set the foundation for long-term improvement in education outcomes. Tripartite agreements are in place in seven provinces, including a sub-regional agreement with Saskatchewan and an implementation-ready tripartite K–12 partnership in British Columbia. • INAC supports Health Canada's efforts respecting drinking water and cooperates fully. • A strategy to address the problem of mould on reserves is being advanced through the existing Indoor Air Quality Committee with representatives from the Canada Mortgage and Housing Corporation, Health Canada, and the Assembly of First Nations, as well as through enhanced funding as opportunities arise. • On child and family services, considerable progress has been made on defining comparability while respecting differences between jurisdictions. The guiding principle that First Nations themselves are best suited to define culturally appropriate services is now incorporated in all tripartite discussions, as is the matter of culturally appropriate placement options. • In relation to the implementation and monitoring of the Inuvialuit Final Agreement and other agreements, progress is being made through the development of the Treaty Obligation Monitoring System (TOMS). In the last year, TOMS was presented to other government departments through regional caucuses in the Atlantic Region, Quebec, and the Northwest Territories, and plans are under way for similar presentations across the rest of the country. TOMS will be

Recommendation	Response
	made accessible online to other departments over the next year. In addition, the Deputy Minister has communicated to colleagues the importance of their active engagement in implementation. Implementation working groups support efforts by colleagues in other departments to collaborate on implementation at the national or regional level. Guidelines are being developed to provide information and direction on critical issues such as alternative dispute resolution. • In relation to reporting requirements, consultations with First Nations and all stakeholders regarding this matter are ongoing through a recently created senior management position, reporting directly to the Deputy Minister.

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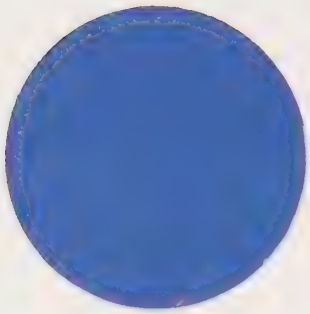
2011



Status Report
of the Auditor General of Canada to the House of Commons

Chapter 5
National Police Services—
Royal Canadian Mounted Police

Office of the Auditor General of Canada



2011



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Office of the Auditor General of Canada

The 2011 Status Report of the Auditor General of Canada comprises Matters of Special Importance, Main Points—Chapters 1 to 6, an appendix, and seven chapters. The main table of contents for the Report is found at the end of this publication.



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Chapter

5

National Police Services—Royal Canadian Mounted Police

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National Police Services—Royal Canadian Mounted Police

Main Points

What we examined

The Royal Canadian Mounted Police (RCMP) provides Canada's law enforcement community with specialized national police services such as forensic analyses of criminal evidence, criminal records information, identification services, technological support, learning opportunities, and the collection and analysis of criminal information and intelligence.

This follow-up audit assessed the progress that the federal government and the RCMP have made toward keeping commitments to improve certain national police services, including their timeliness, made in response to our audits in 2000, 2004, and 2007; those audits noted significant delays in the delivery of these services. We focused on four of the national police services: Forensic Laboratory Services, the National DNA Data Bank, Criminal Intelligence Service Canada, and Canadian Criminal Real Time Identification Services. The DNA Data Bank has not been the subject of a previous audit by this office.

We also followed up on previous audit observations concerning the governance of national police services as a whole and the approach to funding them.

Audit work for this chapter was substantially completed on 1 November 2010.

Why it's important

Jurisdictional limits on individual police forces, the division of investigative responsibility when crime crosses these jurisdictional lines, and constraints on funds and manpower limit the ability of any single police force to carry out complex investigations. Given the RCMP's federal and contractual policing responsibilities, provincial and municipal police forces often rely on the RCMP to provide highly specialized police support services. The aim of providing national police services is to enable and sustain uniform access to information that supports public safety and the administration of justice to all Canadians, particularly where such services may not be within the resources of individual jurisdictions.

What we found

- The federal government and the Royal Canadian Mounted Police have made unsatisfactory progress on commitments made in response to recommendations in our 2000, 2004, and 2007 reports regarding national police services. The RCMP is still providing national police services to other levels of government and law enforcement organizations without clarifying which services should be provided; how they should be funded; and how provincial, territorial, and municipal partners should be engaged within the national police services governance framework. In the absence of formal agreements, the accountability of the RCMP and other partners for the delivery of these services has not been clearly established, nor has how they are to be sustained over the long term.
- The RCMP has not determined the detailed transactional costs of providing each of its national police services. Accurate costing information is essential to efficiently manage services and resources. In addition, because of financial pressures, the RCMP is finding it difficult to deliver national police services and also fulfill its other obligations. In light of existing resource constraints, it is difficult without adequate cost information to negotiate agreements on which national police services will be provided and which are priorities.
- While changes in the approach to managing Forensic Laboratory Services have increased the RCMP's focus on clients' needs and reduced turnaround times, other services have not shown similar improvement. For example, backlogs and delays in updating criminal record information have significantly increased—from 5 months in 2000 to 14 months today. In addition, technological upgrades to critical systems requiring significant investments are facing challenges or have been delayed. At the same time, the demand for national police services is growing and straining the RCMP's ability to deliver in a timely way.

The RCMP and Public Safety Canada have responded. The RCMP and Public Safety Canada agree with all of the recommendations. Their detailed responses follow the recommendations throughout the chapter.

Introduction

5.1 Under the Constitution, the provincial and federal governments share responsibility for the criminal justice system. Parliament has legislative authority for establishing criminal law and criminal procedures. Provinces have primary responsibility for enforcing the *Criminal Code*, prosecuting criminal charges, and administering the trial courts. The Royal Canadian Mounted Police (RCMP) contributes to national policing by providing three types of services. First, it provides federal policing by enforcing federal laws dealing with a variety of subjects such as organized crime and border security. Second, it provides contracted police services to all provinces and territories, except Quebec and Ontario, which each have their own provincial police force, and to certain municipalities and First Nations communities. Third, it provides support services to police forces across the country, such as forensic analyses of criminal evidence. These national support services for policing are the focus of this audit.

5.2 The RCMP is part of the Public Safety Canada portfolio, reporting to the Minister. Public Safety Canada contributes to the development of law enforcement policies and programs and provides advice and support to the Minister in matters regarding the RCMP. Public Safety Canada also represents the federal government in negotiating police service agreements and leads collaborative efforts to modernize the management, governance, and review of the RCMP.

5.3 The RCMP has a wide range of responsibilities. Through federal policing and through its various policing contracts with provinces and municipalities, the RCMP has jurisdictions and personnel that span all of Canada. This benefits all Canadians when dealing with crime that extends beyond any single jurisdiction or beyond the means of an individual police force. As we indicated in our November 2005 chapter on **contract policing**, these contracts enable the RCMP to act as a national police force, even though it is not mandated to do so, providing policing at all levels (municipal, provincial, national, international, and Aboriginal). With the approval of the federal government, the RCMP can provide specialized police support not only to the law enforcement community, but also to international events held in Canada, such as the Vancouver Olympics and the G-8 and G-20 summits.

Contract policing—Policing services provided by the Royal Canadian Mounted Police under contract to certain provinces, territories, municipalities, and First Nations reserves.

Overview of national police services

5.4 The RCMP delivers a number of national police services—specialized investigational support services that assist Canada's law enforcement community—such as

- forensic analyses of criminal evidence,
- criminal records information,
- identification services,
- technological support,
- the Canadian Police College, and
- the collection and analysis of criminal information and intelligence.

5.5 The RCMP has been delivering such specialized services for more than a century. For example, it has provided fingerprint identification and centralized upkeep of criminal records since 1908 and has provided criminal investigation support to the provinces since 1937. Although initially designed and funded to support RCMP members, these services were later made available to other forces and the criminal justice system in provinces and municipalities.

5.6 In 1965, the federal and provincial governments agreed that the fight against the growing presence of organized crime would require increased cooperation among various jurisdictions as well as extensive additional specialized technological support and resources beyond the means of any one police force in Canada. Following a 1965 Cabinet decision and the 1966 Federal–Provincial Conference of Attorneys General on Organized Crime, the RCMP delivered new specialized services to support policing to Canada's law enforcement community. These new services included the formation of Criminal Intelligence Service Canada, the Canadian Police College, and the Canadian Police Information Centre, as well as the expansion of the RCMP's criminal record and fingerprint repositories and its Forensic Laboratory Services. These additions and expansions represented an initial federal government investment of $13.6 million over five years starting in 1966.

5.7 Since 1966, the RCMP has also been tasked with additional specialized services, including

- the Canadian Bomb Data Centre,
- the Violent Crime Linkage Analysis System,
- the National DNA Data Bank,
- the Canadian Police Centre for Missing and Exploited Children,

- the National Sex Offender Registry, and
- the Canadian Firearms Program.

Exhibit 5.1 briefly describes these services.

Exhibit 5.1 National police services provided over the years by the Royal Canadian Mounted Police

Services	Description	Established
Canadian Criminal Real Time Identification Services	Maintains the national repository of fingerprint and criminal record information.	1908
Forensic Laboratory Services	Provides forensic analysis services relating to criminal cases in biology, toxicology, firearms, trace evidence, and counterfeit and document examinations.	1937
Canadian Police College	Provides specialized and advanced police sciences and leadership training to foreign and Canadian senior police officers.	1966
Canadian Police Information Centre	Serves as a central repository that provides information on crimes and criminals.	1966
Criminal Intelligence Service Canada	Facilitates the production and exchange of criminal information and intelligence.	1970
Canadian Bomb Data Centre	Provides support and information in combatting the illegal use of explosives.	1972
Violent Crime Linkage Analysis System	Serves as a central repository that provides information on serial criminals and violent crimes.	1991
National DNA Data Bank	Serves as a central repository that captures and references DNA profiles from crime scenes and convicted offenders.	2000
Canadian Police Centre for Missing and Exploited Children	Provides investigative assistance to help reduce the vulnerability and exploitation of children.	2004
National Sex Offender Registry	Serves as a central repository that provides current information about convicted sex offenders.	2004
Canadian Firearms Program	Provides operational support to the prevention and investigation of firearms crime and misuse.	Transferred to RCMP in 2006

Source: Royal Canadian Mounted Police

5.8 These services depend on the commitment of provinces and municipalities to input and share criminal information, as well as on federal financial support.

5.9 Partners—members of Canada's law enforcement community that use or have input into national police services—have recognized the benefit of a central national repository and coordination of criminal information and investigational support activities. By providing these specialized training, technological, and scientific services, the RCMP enables uniform access to information that supports the administration of justice to all Canadians, particularly where the same level of services may not be within the resources of a given province or territory.

5.10 In the 2010–11 fiscal year, the RCMP allocated $527 million to these specialized policing services, including 3,260 full-time personnel out of a total RCMP staff of 29,840.

What we found in our previous audits

5.11 In our April 2000 chapter on services for Canada's law enforcement community, we reported on several issues regarding governance, funding, and timeliness of national police services and recommended that the government reach agreements with all partners on required services, funding arrangements, structure, and accountability.

5.12 In our May 2007 chapter on the management of forensic laboratory services, we found that the RCMP's Forensic Laboratory Services was not meeting turnaround targets in the delivery of its services and that clients lacked the opportunity to influence operations.

5.13 Finally, our previous audits found a backlog of fingerprints awaiting processing and identification. In our March 2004 chapter on national security, we recommended that the RCMP find and implement a solution to deal with its fingerprint backlog. In our follow-up chapter in March 2009, we found that progress on the development of the RCMP's proposed solution, the Real Time Identification project, was satisfactory, but a backlog remained in updating individuals' criminal record information.

Focus of the audit

5.14 This follow-up audit assessed the progress that the federal government and the Royal Canadian Mounted Police have made

against issues related to our recommendations from Chapter 7 of our April 2000 Report, Chapter 3 of our March 2004 Report, and Chapter 7 of our May 2007 Report. We also assessed progress against other audit observations on the governance and funding of national police services found in the preceding chapters, and on the status of the Real Time Identification project outlined in Chapter 1 of our March 2009 Status Report.

5.15 We included Public Safety Canada in this audit because it is responsible for developing policing policy at the federal level. Public Safety Canada represents the federal government in negotiating police services agreements and provides advice and support to the Minister in matters regarding the RCMP.

5.16 More information on the audit objectives, scope, approach, and criteria can be found in **About the Audit** at the end of this chapter.

Observations and Recommendations

Governing national police services

National police services are not covered by formal agreements

5.17 The Royal Canadian Mounted Police (RCMP) is required by legislation to provide some policing support services, such as the Canadian Firearms Program, Forensic Laboratory Services, the National DNA Data Bank, and the National Sex Offender Registry. However, there are other national police services being provided by the RCMP that are not legislated but were requested by the federal government, because these services support essential policing activities for the RCMP's members and for the law enforcement community in general. These include the Canadian Bomb Data Centre, the Canadian Criminal Real Time Identification Services, the Canadian Police College, the Canadian Police Information Centre, Criminal Intelligence Service Canada, and the Violent Crime Linkage Analysis System. These services are also important because central collection and exchange of critical criminal information and intelligence beyond existing jurisdictions enhances the security of all Canadians. Partners recognize that the RCMP is well positioned to provide these services given its federal, provincial, territorial, and municipal policing experience.

5.18 The proposal to expand national police services was discussed at the 1966 Federal–Provincial Conference of Attorneys General on Organized Crime and confirmed and implemented through subsequent Treasury Board decisions, but it was not formalized through

agreements or a governance framework between the federal and provincial governments. Since then, national police services have continued to expand in response to the increasing scope and influence of criminal activity across national and provincial boundaries as well as to rapidly changing advancements in technology that support police. Today, approximately 70 percent of national police services are being accessed by police forces other than the RCMP. Even though the RCMP uses approximately 30 percent of national police services, it is currently assuming most of the costs of these services. Further, there are still no agreements on what services will be provided. We found that the RCMP's role, responsibility, and accountabilities have not been clearly defined for the following:

- deciding which national police services should be provided to other police forces;
- deciding how these services should be funded; and
- determining how provincial, territorial, and municipal partners should be consulted.

5.19 We also found that the absence of formal agreements for national police services creates uncertainties regarding the role of partners. In most instances, there is no obligation on any police force under provincial jurisdiction to provide or share criminal information.

5.20 In our 2000 chapter, we recommended that the government reach agreements with all partners on national police services, funding arrangements, structure, and accountability, to which the RCMP concurred. We examined whether such agreements were in place. Since that time, the provinces and the federal government have signed the **biology casework analysis agreements**. However, we have assessed progress as unsatisfactory because the government has not reached agreements on any other national police services (Exhibit 5.2).

Biology casework analysis agreements – Agreements whereby the federal government and the provinces agree to share the costs of biology casework analysis (DNA) arising from criminal investigations of designated offences in the provinces.

5.21 The *Royal Canadian Mounted Police Act* provides the Minister of Public Safety with the authority to enter into arrangements with provinces and municipalities regarding the use of RCMP services. Public Safety Canada is responsible for leading efforts to develop policing policy and federal–provincial policing agreements. Recently, the RCMP and Public Safety Canada have initiated discussions to address the lack of clarity of the roles and responsibilities of the RCMP and partners for national police services. Federal, provincial, and territorial assistant deputy ministers responsible for policing have met to discuss the issue.

5.22 We recognize that any agreement on national police services will require effort and time on the part of Public Safety Canada, the RCMP,

and provincial and territorial representatives. But such agreements could clarify the roles and responsibilities of all partners for the delivery of national police services to best serve the needs of the criminal justice system.

Exhibit 5.2 Progress in addressing our recommendation on national police services agreements

Recommendation	Progress
The government should ensure that agreement is reached with all stakeholders on the national services needed, funding arrangements, structure and accountability. (Recommendation 7.123 of the 2000 April Report of the Auditor General of Canada, Chapter 7, Royal Canadian Mounted Police—Services for Canada's Law Enforcement Community)	Unsatisfactory

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

5.23 Recommendation. Public Safety Canada, in consultation with the Royal Canadian Mounted Police, should work with partners to identify what national police services are required; to examine issues related to governance, accountability, and funding of national police services; and to propose a way forward for implementation.

Public Safety Canada's and the RCMP's response. Agreed. Public Safety and the RCMP recognize that, due to the complexity of this issue, a long-term, concerted effort will be required, starting with the study, "A Feasible and Sustainable Model for Forensic Services Delivery in Canada," commissioned by Public Safety Canada. It is further recognized that, in order to sustain national police services in the future, agreement needs to be reached with partners on what services are required, and that issues related to governance, accountability, and funding need to be addressed. These issues are directly linked to the significant work required to address the other recommendations within this audit, including

- identifying the services offered as part of national police services;
- undertaking an analysis that includes cost to deliver the services; what has been funded; cost recovery efforts to identify gaps; the governance structure, which would include the ongoing study on alternative service delivery models and the RCMP's strategic discussion paper, and consultation with the provinces and territories;

- developing options and outlining next steps for consideration by the government; and
- negotiating funding arrangements with partners.

Overlapping with this study would be the RCMP's National Police Services Renewal and Sustainability Initiative that is intended to provide an overall view of the delivery of national police services.

National police services governance lacks partners' representation

5.24 During the Federal–Provincial Conference of Attorneys General on Organized Crime in 1966, the provinces suggested that representatives from different jurisdictions facilitate the exchange of information among organizations to avoid national police services becoming exclusively an RCMP operation. Representatives were chosen in 1969 for the Advisory Committee for the Canadian Police Information Centre to allow the larger law enforcement bodies to participate in the decisions made regarding the centre.

5.25 In 2000, we noted that because Forensic Laboratory Services are used by other members of the Canadian law enforcement community who rely on these services, we recommended the establishment of a national forensic advisory committee. In our 2007 chapter, we also recommended the establishment of a mechanism for consulting with partners so they have an opportunity to influence laboratory services, priorities, and service standards. The RCMP has implemented these recommendations.

5.26 However, as noted in Exhibit 5.3, we found that several of the other national police services still have no advisory body. Further, some advisory bodies meet irregularly. Advisory bodies allow partners to influence decisions and participate in the development of the services' policies. For example, when the Canadian Police Information Centre advisory board was first established in 1969, the federal government intended that through this participation, other partners from the law enforcement community would feel a direct responsibility to contribute, maintain, and use these services.

5.27 Following our 2000 chapter, the RCMP established a National Police Services Advisory Council whose mission is to provide strategic-level advice to the RCMP for all national police services. It consists of executive-level members drawn from the public, private, and professional sectors with extensive management and federal government expertise. Each member is named by the Commissioner of the RCMP for a period of three years. Although it met irregularly in the past, it has now been meeting regularly, as intended.

Exhibit 5.3 Several national police services have no partner advisory body

Services	Partner Advisory Body
Canadian Criminal Real Time Identification Services	No committee
Forensic Laboratory Services	Advisory committee
Canadian Police College	Advisory board
Canadian Police Information Centre	Advisory committee
Criminal Intelligence Service Canada	National Executive Committee (also has decision-making authority)
Canadian Bomb Data Centre	No committee
Violent Crime Linkage Analysis System	No committee
National DNA Data Bank	National Advisory Committee
Canadian Police Centre for Missing and Exploited Children	No committee
National Sex Offender Registry	No committee
Canadian Firearms Program	Advisory board
National police services (general)	National Police Services Advisory Council

5.28 We found, however, that the advisory council's terms of reference do not require partner representation. While there are benefits derived from the current composition of the council, adding representation from Canada's law enforcement community would also promote a direct responsibility to contribute, maintain, and use these services, in line with the intent of the 1966 conference. Overall, we found progress to be satisfactory in addressing our recommendations on advisory committee and client consultation (Exhibit 5.4). However, in our opinion, the RCMP can improve partner representation on several of its national police services advisory bodies.

5.29 Recommendation. The Royal Canadian Mounted Police should ensure partner representation in all national police services that best meets the needs of the users of these services.

The RCMP's response. Agreed. The RCMP agrees that partner representation is important in all national police services in order to best meet the needs of the users of these services. A strategic discussion paper is expected to be completed by the end of the 2010–11 fiscal year, as part of the National Police Services Renewal and Sustainability Initiative. This initiative will examine the existing national police service governance structure to understand the current situation and articulate viable options for delivery of the services.

The intended outcome of this activity is to ensure better partner representation in the national police services governance structure, allowing national police services to best meet their users' needs.

Exhibit 5.4 Progress in addressing our recommendations on advisory committee and client consultation

Recommendation	Progress
The RCMP should establish a national forensic advisory committee. (Recommendation 7.42 of the 2000 April Report of the Auditor General of Canada, Chapter 7, Royal Canadian Mounted Police—Services for Canada's Law Enforcement Community)	Satisfactory
The RCMP should establish a mechanism for consulting with clients so that they have an opportunity to influence lab services, priorities, and service standards. (Recommendation 7.79 of the 2007 May Report of the Auditor General of Canada, Chapter 7, Management of Forensic Laboratory Services—Royal Canadian Mounted Police)	Satisfactory

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Funding national police services

The RCMP has not determined the detailed transaction costs of each of its national police services

5.30 In order to properly manage its resources, negotiate agreements on funding arrangements with partners, and explore options for different delivery models, the RCMP needs to be able to determine the detailed transactional costs of each of its national police services. Accurate costing information is an essential element in designing, providing, and managing services in an efficient manner. Determining these costs would also assist the RCMP in defining its requirements in order to meet future increases in service volumes. We examined whether the RCMP had determined the detailed transactional costs of each of its national police services.

5.31 As early as 1997, as the RCMP was examining various options for the funding of national police services, it recognized that any discussions of cost-sharing or cost recovery would require details regarding service standards and service costs. In particular, accurate transaction costs are needed for any negotiations on cost recovery. Since then, the RCMP has led or participated in a number of studies aimed at determining the costing of national police services, including the contributions of partners to these services.

Service standard—The measurable level of service that clients can expect to receive under normal circumstances (for example, answer telephone calls within two minutes).

5.32 In one such instance, biology casework analysis agreements that came into force in 2001 stipulated that participating provinces would pay 55 percent of the average national RCMP cost per biology case for designated offences as determined by a costing analysis performed for the Solicitor General of Canada. However, we found that revised agreements signed in 2007 were not based on the cost per biology case. These agreements provided only a fixed amount to be paid by provinces receiving these services. Public Safety Canada told us that the existing funding arrangement for these agreements does not reflect the actual costs of biology case service requests today.

5.33 We examined the cost per biology service request prepared by the RCMP but found that the costs were underestimated because the calculations did not include all of the work performed. Therefore, the RCMP cannot provide information on the actual costs it is incurring to provide this service to other police forces.

5.34 In response to our 2007 chapter recommendation regarding a review of the Forensic Laboratory Services, the RCMP agreed that it should perform a cost–benefit analysis for these services. Although the RCMP performed a review of Forensic Laboratory Services in 2009, it did not include a cost–benefit analysis. However, the review recommended that each element of the RCMP's biology services' business be costed, starting at the gross unit level and then moving down to individual sites and processes. This had not yet been done at the time of our audit, resulting in an unsatisfactory progress rating (Exhibit 5.5). In determining progress as being unsatisfactory, we looked only at whether the RCMP performed a cost–benefit analysis of various services.

Exhibit 5.5 Progress in addressing our recommendation on a review of Forensic Laboratory Services

Recommendation	Progress
The RCMP should conduct a review of the Forensic Laboratory Services to examine internal efficiencies, perform a cost/benefit analysis of various services, and examine the need for additional resources. (Recommendation 7.50 of the 2007 May Report of the Auditor General of Canada, Chapter 7, Management of Forensic Laboratory Services—Royal Canadian Mounted Police)	Unsatisfactory

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

5.35 At the time of this audit, we found that the RCMP could not provide detailed transactional costs of its national police services, which limits its ability to properly manage its resources. The National Police Services Renewal and Sustainability Initiative (Exhibit 5.6) currently under way is expected to provide information on these costs, but it is to be completed during the 2011–12 fiscal year.

Exhibit 5.6 The National Police Services Renewal and Sustainability Initiative is not yet completed

The National Police Services Renewal and Sustainability Initiative is a project that examines national police services. The project is designed to reaffirm the services' identity and mandate, provide a complete financial and program overview, and provide a thorough analysis of potential strategies to optimize current systems and to develop new funding mechanisms for national police services in the future. Project results are to be prepared and submitted within the 2011–12 fiscal year. The project includes the following objectives:

- Review and validate the mandate of national police services.
- Review and validate the selection of services.
- Compare historical demands with current operational capacity and quantify the resource gap.
- Conduct a rigorous financial review of national police services.
- Review the governance and accountability structure for national police services.
- Develop and analyze potential mechanisms to provide dedicated and sustainable funding for national police services.

Source: Adapted from the project charter of the National Police Services Renewal and Sustainability Initiative

5.36 Recommendation. The Royal Canadian Mounted Police should complete as scheduled its National Police Services Renewal and Sustainability Project, including a detailed estimate of its transactional costs to provide each national police service, and monitor these costs over time.

The RCMP's response. Agreed. The RCMP agrees that it should complete the National Police Services Renewal and Sustainability Initiative, which is currently continuing as planned. One of the intended outcomes of the National Police Services Renewal and Sustainability Initiative is to allow the RCMP to build a more robust and accurate method of costing of services. As well, a strategic national police services discussion paper, to be finished within the 2010–11 fiscal year, will include a review of national police services and their challenges, an articulation of potential options for governance and service delivery models, and recommendations for a long-term strategic vision. The discussion paper will be used as a vehicle to engage partner agencies in discussions concerning the future of national police services.

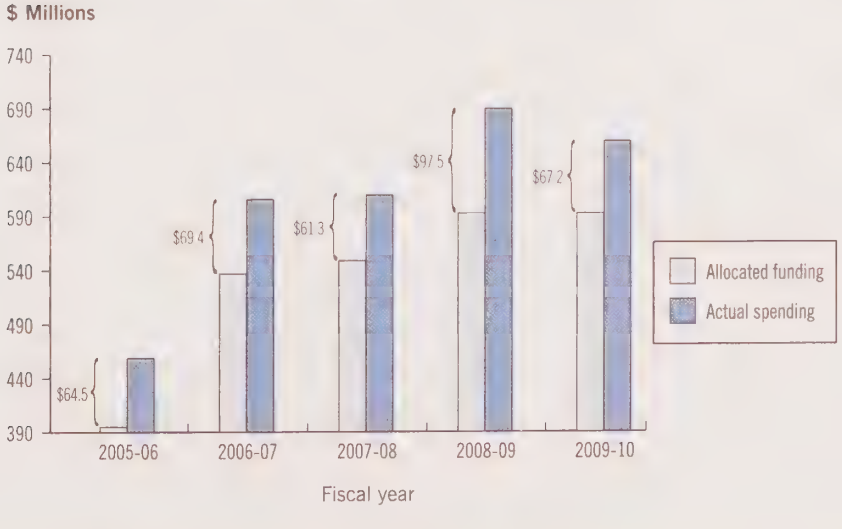
Resources for national police services have not kept pace with growing service requests

5.37 Since the 1966 federal–provincial conference, national police services have expanded, the number of service requests has increased, and the services have also become reliant on the use of increasingly complex information systems requiring substantial investments. All of these factors have contributed to the growing cost of delivering national police services. We examined whether the RCMP was allocating necessary resources to meet the needs of all national police services.

5.38 As early as 1992, the RCMP recognized that there was an increasing gap between its available resources and the cost of delivering national police services to Canada's law enforcement community. As shown in Exhibit 5.7, policing support service expenses, which include national police services, exceeded allocations for the last five fiscal years, reaching a gap of $97.5 million for the 2008–09 fiscal year.

5.39 To alleviate these financial pressures, we found that the RCMP has, over the past five years, been using the unspent portion of its budget from preceding fiscal years to ease financial gaps for national police services in subsequent years. In previous years, the main source of these funds has been from less than expected spending on new recruits.

Exhibit 5.7 RCMP spending on policing support services, including national police services, has exceeded allocated funding for the last five fiscal years



Source: Main Estimates and Public Accounts of Canada

5.40 However, we found that the successful recruitment of police officers for contract and federal policing has reduced the carry-forward of unspent funds. This has reduced the RCMP's flexibility to reallocate resources to resolve funding pressures such as those in national police services. To compensate, for the 2009–10 fiscal year, the RCMP reduced the initial budgets for all its programs by five percent, with the exception of funds earmarked for contract policing and the 2010 Vancouver Olympics, and reallocated those funds mostly to national police services. For the 2010–11 fiscal year, the RCMP reduced the initial budgets for its programs by 10.4 percent to cover funding gaps, including national police services.

5.41 The internal reallocation increased available funding for national police services while other RCMP programs, primarily federal policing, had to cut back. In particular, the RCMP's Federal and International Operations Directorate—which has responsibility for organized crime investigations, border integrity, drug enforcement, and money laundering—has had to reduce its budget by more than $47.7 million or 8.4 percent in the 2010–11 fiscal year.

5.42 The RCMP finds that it is becoming increasingly difficult to continue funding the rising costs of providing national police services through internal reallocation. In order to balance its resources and without additional funding, officials have told us that the RCMP must either reduce these services or permanently redirect funding from other RCMP programs and activities to sustain national police services.

5.43 We found that the RCMP is developing a comprehensive reallocation strategy to assess existing pressures and then identify opportunities to permanently reallocate resources to the highest priority pressures. Senior officials told us that this review will be followed by decisions that could include the termination of programs that are not a legal obligation of the RCMP, including some national police services.

5.44 However, the development and successful implementation of this strategy, or any other approach to dealing with funding shortfalls, first requires a clear understanding of the roles and responsibilities of the RCMP and its partners in deciding which national police services should be provided and how they should be delivered.

5.45 The RCMP's past readiness to take on the delivery of additional national police services is a demonstration of its commitment to deliver services that are needed for policing. But, as funding pressures

indicate, there are limits to the RCMP's capacity. In its December 2007 report, the Task Force on Governance and Cultural Change in the RCMP, appointed by the federal government to advise on strengthening the governance of the RCMP, recommended, "The RCMP should implement measures to ensure that no commitment to deliver a new service or modify an existing service is made without assurance that the necessary human resources and equipment can be deployed without compromising the ability of the Force to fulfill its existing responsibilities . . . ".

5.46 Another example of a funding challenge is the National DNA Data Bank. The *DNA Identification Act* came into force in 2000, requiring the RCMP to provide services for the DNA Data Bank without additional permanent resources. With the coming into force of amendments to the Act, the number of service requests to the National DNA Data Bank has more than doubled, from around 19,800 in the 2007–08 fiscal year to approximately 40,800 in the 2008–09 fiscal year. The RCMP has made internal reallocations to make resources available for the National DNA Data Bank.

5.47 In Budget 2010, the federal government announced that it would explore options for different delivery models of the RCMP's Forensic Laboratory Services, including privatization. It believes, "A new approach should improve the timeliness of processing samples, ensure sound financial administration and increase research and development in forensic science." A study of these options is currently being planned by Public Safety Canada as lead in the federal government's efforts to modernize the management, governance, and review of the RCMP. The preliminary results of this study are anticipated in late 2011.

5.48 However, the study does not include all national police services, only the Forensic Laboratory Services. Considering the RCMP's ongoing efforts to clarify its national police service roles and responsibilities and to solve current funding shortfalls, a study of all national police services to explore options for different delivery models may provide guidance to both Public Safety Canada and the RCMP in addressing these issues.

5.49 Recommendation. In addition to the study of Forensic Laboratory Services currently being conducted by Public Safety Canada, the Royal Canadian Mounted Police, in partnership with Public Safety Canada, should examine all national police services to determine whether different delivery models could provide a better service in an efficient and cost-effective manner.

The RCMP's and Public Safety Canada's response. Agreed. The RCMP and Public Safety Canada agree that an examination of all national police services is appropriate to determine whether different delivery models may be more efficient and effective. The RCMP's National Police Services Renewal and Sustainability Initiative, along with the results of the Forensic Laboratory Study, will support the actions identified in the response to Recommendation 5.23 and will provide the foundation for future deliberations and discussions surrounding possible delivery options.

Delivering national police services

Timely response remains a challenge despite improvements

5.50 In our April 2000 and May 2007 chapters, we found that the Forensic Laboratory Services did not deliver services in a timely manner. We reported that these delays had a negative impact on investigations and resulted in increased investigation costs. In our May 2007 follow-up audit, we found some improvements, such as the introduction of turnaround time targets. However, we also found that, for the most part, the turnaround targets were not met and that clients lacked the opportunity to influence how Forensic Laboratory Services were provided.

5.51 Previous audits had also noted weaknesses with the timely processing of fingerprints and criminal record updates. In our April 2000 and March 2004 chapters, we recommended that the RCMP establish turnaround targets and implement a solution to deal with its fingerprint and criminal record update backlogs. The RCMP agreed with these recommendations. In later follow-up audits, we noted that while satisfactory progress had been made in implementing some of these recommendations, certain backlogs remained and were increasing.

5.52 Since then, the RCMP has introduced a number of initiatives to improve the timeliness of service delivery for some of these services. This audit focused on four specific services: Forensic Laboratory Services, the National DNA Data Bank, Canadian Criminal Real Time Identification Services, and Criminal Intelligence Service Canada. We examined whether the RCMP is complying with agreed to service levels in the delivery of its national police services.

5.53 Forensic Laboratory Services. The RCMP has made progress in addressing deficiencies in its Forensic Laboratory Services and in providing clients with an opportunity to influence lab services (Exhibit 5.4). In 2008, the RCMP developed the forensic investigation process to improve service through a more flexible and efficient intake

process in order to meet the needs of investigators in a timely manner. As part of planning for the new process, the RCMP undertook client consultations to determine users' needs and has engaged users throughout the implementation to validate the new model. It is currently in the third step of a four-step implementation and has found that the new process has already decreased backlogs and processing times.

5.54 Based on our testing, we found that while the average forensic lab processing time increased from 66.1 working days in 2007 to 73.9 working days in 2008, the average processing time decreased to 57.5 working days in 2009. For 2010, we found that the average processing time had decreased to 37.5 working days, which supports the RCMP's assertion that processing times have decreased since using this new process.

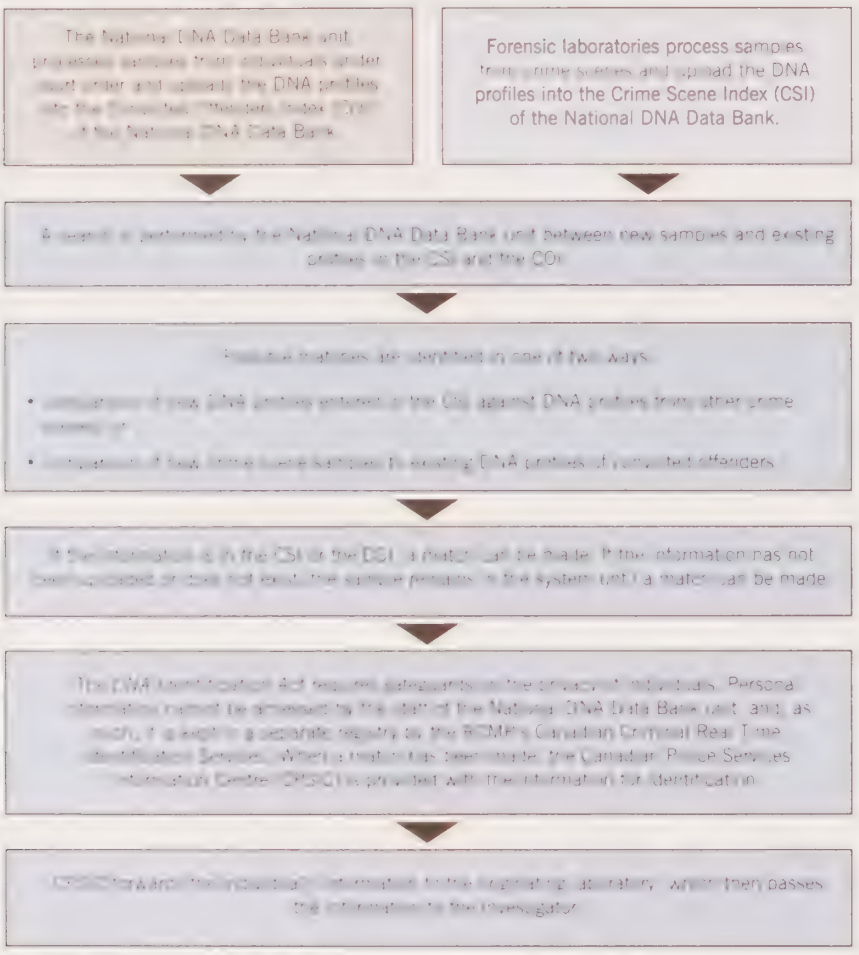
5.55 **National DNA Data Bank.** The RCMP was mandated by legislation to maintain a National DNA Data Bank. We found that the data bank did not have formal service standards; however, turnaround times are tracked in order to identify areas of delay.

5.56 A DNA service request requires the services of both the National DNA Data Bank and the Canadian Criminal Real Time Identification Services as it is not permitted under the *DNA Identification Act* to identify a DNA sample without a corresponding criminal record. Exhibit 5.8 illustrates how the identification process works.

5.57 We tested a sample of files where a DNA sample had been identified, and found that, on average, it takes 9.2 working days for the National DNA Data Bank to initially process a DNA sample. This is consistent with the turnaround times reported by the RCMP. The sample is then searched against existing profiles, which can take much longer in order to obtain a match.

5.58 The search time is dependent on some factors that are beyond the RCMP's control. For example, DNA from a crime scene cannot be matched unless there is a corresponding profile on record or criminal events happen that yield more information, such as a sample taken from a subsequent crime scene months after an initial crime generates a match. RCMP officials indicated that the waiting time for this match could be years, or that a match may never be identified. We found that the time to complete the portion of the work undertaken by the National DNA Data Bank is consistent with the turnaround times reported by the RCMP. Once a match is found, it then takes Canadian Criminal Real Time Identification Services, on average, 12.3 days to complete the work and return the results to the client.

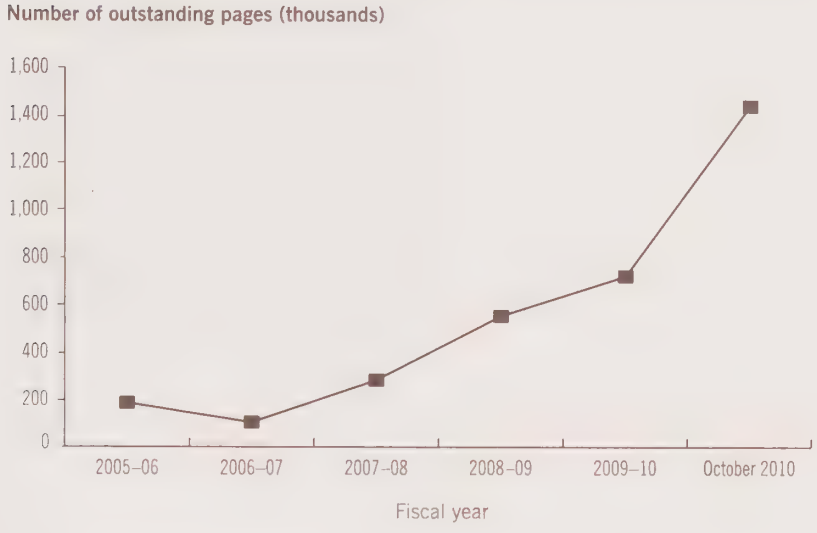
Exhibit 5.8 The DNA sample identification process involves the National DNA Data Bank and the Canadian Criminal Real Time Identification Services



Source: Adapted from the National DNA Data Bank Annual Report

5.59 Canadian Criminal Real Time Identification Services. We continue to find delays with updates to criminal records. These records are maintained by the Canadian Criminal Real Time Identification Services. In our March 2009 chapter, we reported that although the backlog for checking fingerprints against the database of existing fingerprints had been eliminated, a backlog remained in updating individuals' criminal record information. This backlog has worsened. Since the 2005–06 fiscal year, the outstanding criminal record update backlog has increased from 186,018 pages (each criminal record contains one or more pages of information) to more than 1.4 million in 2010 (Exhibit 5.9). The estimated time to process a criminal record update is 14 months for English updates and 36 months for French updates.

Exhibit 5.9 Criminal record update backlog has more than quadrupled since the 2005–06 fiscal year



Source: Royal Canadian Mounted Police

5.60 We undertook a review of a representative sample of files to determine how long it takes to process a new criminal record and to update an existing criminal record. For a new record, the average time to process was 27 working days. This is significantly higher than the optimal response time of two hours that the RCMP expects to achieve upon completion of the Real Time Identification project. For updates to existing criminal records, we found that only 30 percent of the files originally selected as part of our sample had been completed, with the remaining 70 percent in different stages of the process. For the files that had been completed, we found that the average time to update an existing criminal record was 334 working days. RCMP officials explained that this delay results from significantly increased demand. The RCMP expects to achieve a response time of 24 hours for an existing criminal record update upon completion of the Real Time Identification project.

5.61 As reported in our March 2009 chapter, the Real Time Identification project was supposed to help reduce the criminal record update backlog. At that time, the RCMP indicated that the project was progressing well and was on budget. However, the project is no longer on schedule and was on hold at the time of our audit pending a review of its scope. Therefore, progress toward the implementation of the Real Time Identification project is unsatisfactory (Exhibit 5.10). Accurate, up-to-date criminal records and fingerprints are crucial to Canada's

law enforcement. In previous reports, we noted that Canada's fingerprint and criminal history records system were unable to keep up with demand and recommended that the RCMP implement a solution. The Real Time Identification project was proposed to improve the efficiency of Canada's national fingerprint repository (phase 1) and criminal record repository (phase 2).

Exhibit 5.10 Progress in addressing our recommendations on the Real Time Identification project

Recommendation	Progress
The RCMP and Public Safety and Emergency Preparedness Canada should give priority to implementing the Real Time Identification project. (Recommendation 3.109 of the 2004 March Report of the Auditor General of Canada, Chapter 3, National Security in Canada—The 2001 Anti-Terrorism Initiative)	Unsatisfactory

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

5.62 In 2005, the RCMP received additional funding in the amount of $99.7 million and allocated a further $30 million of its existing resources to fund the project, for a total of $129.7 million. Delays and complexity impacted the timely delivery of phase 1. As reported in our March 2009 Status Report, phase 1 was concluded in September 2008, 21 months later than planned.

5.63 Phase 2 was scheduled to begin in the fall of 2006, but did not start until February 2008. However, issues from phase 1 remained unresolved and affected the progress of phase 2. An independent review of the project was undertaken in January 2010 due to the ongoing difficulties in deciding on the project scope, as well as cost overruns and schedule delays. The results of the review led to a decision by the RCMP to issue a stop work order for phase 2 on 25 May 2010, until further notice, to reassess the project scope, timeline, and funding. At the time of our audit, the project was still on hold, and the RCMP was in the process of revising the project scope.

5.64 Criminal Intelligence Service Canada. Part of Criminal Intelligence Service Canada's mandate is to ensure timely production and exchange of criminal information and intelligence products. The Automated Criminal Intelligence Information System (ACIIS), managed by Criminal Intelligence Service Canada, is the Canadian law enforcement community's national database for criminal information

and intelligence on organized and serious crime. It facilitates the sharing of criminal intelligence between law enforcement agencies. In 2008, Criminal Intelligence Service Canada undertook a review of ACIIS, including consultation with law enforcement personnel and intelligence analysts from all levels across Canada. It was determined that deficiencies in the existing ACIIS were eroding trust in the system and creating doubts as to its value. The review also found that the system is cumbersome, requiring manual data re-entry of information already contained within police forces' own local systems. Where law enforcement resources are stretched, there is insufficient time and resources to duplicate efforts by entering the same information into two systems.

5.65 ACIIS also offers limited analysis capability. For Criminal Intelligence Service Canada, sharing information is essential in its strategy to fight organized crime. The total number of ACIIS information transactions has doubled between 2006 and 2008. Criminal Intelligence Service Canada told us that the current ACIIS system will soon no longer be supportable. Criminal Intelligence Service Canada estimates that an upgrade to a new criminal intelligence system will cost more than $70 million. No source of funding has been identified to meet this need.

5.66 Despite improvements made in some areas of national police services, timely responses to client requests remain a challenge and the backlog for updating criminal records has increased since our March 2009 Status Report. Demand has continued to increase (Exhibit 5.11) and proposed changes to the *DNA Identification Act* have the potential to further increase the number of service requests to be processed each year. Combined with existing financial pressures, this increase in backlogs and service requests is straining the RCMP's ability to continue delivering national police services in a timely manner.

Exhibit 5.11 Client service requests continue to increase

Service		Fiscal year					
		2004–05	2005–06	2006–07	2007–08	2008–09	2009–10
Canadian Criminal Real Time Identification Services	Criminal requests	753,687	880,475	967,440	916,267	972,865	930,790
	Civil requests	194,782	199,161	212,240	245,055	242,088	241,894
National DNA Data Bank		17,429	19,048	19,613	19,822	40,733	42,879
Forensic Laboratory Services		11,387	11,746	11,415	11,291	11,752	12,618

Source: Compiled by the Office of the Auditor General using data provided by the RCMP

5.67 In addition to the absence of any legal requirement for police forces to provide or share most criminal information, these increases in backlogs and processing delays limit the RCMP's ability to provide assurance that its various national police services' repositories, such as fingerprints, criminal records, and organized crime intelligence, are complete and up to date. Much work remains to be done to resolve these backlogs and delays.

Conclusion

5.68 National police services provided by the RCMP are valuable to the Canadian criminal justice system. They support the national coordination of activities and information through the delivery of specialized training as well as technological and scientific services that ensure a uniform level of public safety and the administration of justice to all Canadians, particularly where such services may not be within the resources of provincial and territorial jurisdictions.

5.69 The RCMP has made satisfactory progress in providing its partners and clients with opportunities to influence national police services, priorities, and service standards. However, specific services still do not provide such an opportunity, while the National Police Services Advisory Council does not include partner representation.

5.70 Despite a commitment to do so, the RCMP has not made satisfactory progress in implementing recommendations regarding the timely delivery of national police services from our 2000, 2004, and 2007 reports. While the RCMP has improved the timely delivery of some of its national police services, it still faces increased backlogs and delays in the update of criminal records. Technological upgrades to critical national police services systems such as the Real Time Identification project either face significant challenges or are being delayed. This increases the risks of loss or delays in the timely transmittal of critical criminal information that could affect the safety and security of Canadians.

5.71 The federal government has not made satisfactory progress in implementing our 2000 recommendation to reach agreements with partners on national police services requirements, funding arrangements, and accountability. The absence of formal agreements creates uncertainties regarding national police services roles and responsibilities of the RCMP and its partners in deciding which national police services should be provided; how these services should be funded; and how provincial, territorial, and municipal

partners should be engaged within the national police services governance framework.

5.72 We found that the RCMP has been challenged to continue paying for the rising costs of national police services. The increasing scarcity of unspent funds in other areas to cover financial shortfalls in national police services could affect the RCMP's ability to deliver these services along with its other obligations. The RCMP has begun to take action by assessing existing financial pressures and then examining and identifying opportunities for permanent reallocation of resources. However, the development and successful implementation of this or any other approach in dealing with funding shortfalls will first require a clear understanding of the roles and responsibilities of the RCMP and its partners in deciding which national police services should be provided, what their costs are, and how they should be funded.

About the Audit

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Objectives

The objective of our audit was to determine whether the federal government and the Royal Canadian Mounted Police (RCMP) have made satisfactory progress in implementing selected recommendations from Chapter 7 of our 2000 April Report, Chapter 3 of our 2004 March Report, and Chapter 7 of our 2007 May Report.

Scope and approach

Our audit covered the planning, management, and delivery of the Royal Canadian Mounted Police's national police services as provided by Policing Support Services. The audit scope for our examination of the criteria regarding compliance to service levels focused exclusively on the following national police services:

- Forensic Laboratory Services
- National DNA Data Bank
- Canadian Criminal Real Time Identification Services
- Criminal Intelligence Service Canada

The remainder of the audit examined all national police services.

The audit team interviewed staff from the RCMP, mostly senior management and analysts from Policing Support Services and the various national police services. Other personnel interviewed included representatives from the Chief Information Officer and Chief Financial Officer branches.

A statistically representative sample of 57 records was randomly extracted from the population of 97,492 completed National DNA Data Bank records in the scope of our audit, with a date range from April 2007 to September 2010. Only records that matched Canadian Criminal Real Time Identification Services entries during the same date range were included as part of the audit sample. This sample is sufficient to conclude on the sampled population with a confidence level of 90 percent, and a confidence interval of +10 percent, 19 times out of 20.

New and updated records were sampled separately from the fingerprint and criminal record system, with a date range from April 2007 to September 2010. New records are those that did not match any existing fingerprint or criminal record, while updated records are those for which matches have been found. Separate statistically representative samples of 59 updated records and 60 new records were randomly extracted from the population within the scope of our audit of 227,019 updated and new

records. Both samples are sufficient to conclude on the sampled populations with a confidence level of 90 percent, and a confidence interval of +10 percent, 19 times out of 20.

Sampling was not performed on the Laboratory Information Management System (LIMS) database for Forensic Laboratory Services. Rather, all measures were calculated on the entire population in the scope of our audit, which consisted of 103,658 service requests, filtering out those that were either case management, case receipt, or queued entries. The date range for the sample was from April 2007 to September 2010.

Specific audit questions were also directed to Public Safety Canada for its role in developing appropriate national policies for new and evolving crime and border issues and in contract negotiations with provinces and territories for national police services, and the Department of Justice Canada for its role in the preparation of proposed amendments to the *DNA Identification Act*, which may have a bearing on costs and service levels.

The audit did not examine the performance of provinces and territories.

Criteria

To determine whether the federal government and the Royal Canadian Mounted Police (RCMP) have made satisfactory progress in implementing selected recommendations from Chapter 7 of our 2000 April Report, Chapter 3 of our 2004 March Report, and Chapter 7 of our 2007 May Report, we used the following criteria:

Criteria	Sources
The RCMP has legislation in place that gives it authority and responsibility for the delivery of national police services.	• *Royal Canadian Mounted Police Act*, section 18 • *DNA Identification Act*, section 5 • *Firearms Act*, section 81.2 • *Sex Offender Information Registration Act*, sections 13 and 14 • Order Transferring from the Canadian Firearms Centre to the Royal Canadian Mounted Police the Control and Supervision of the Canadian Firearms Centre • Agreements between the federal government and provincial and territorial governments affecting national police services • Policing services agreements between the federal government and provincial and territorial governments (contract policing) • Treasury Board decisions
National police services funding is aligned with legislation and supporting authorities and arrangements.	• Various appropriation acts • Treasury Board decisions pertaining to national police services • Agreements between the federal government and provincial and territorial governments affecting national police services • Policing services agreements between the federal government and provincial and territorial governments (contract policing) • Common Services Policy, sections 5.6 and 5.7, Treasury Board, 2006

The RCMP complies with legislated, regulated, and agreed-to service levels in the delivery of national police services.	• Service Standards: A Guide to the Initiative, Treasury Board, 1995 • Quality and Affordable Service for Canadians: Establishing Service Standards in the Federal Government—An Overview, Treasury Board, 1994

Management reviewed and accepted the suitability of the criteria used in the audit.

Period covered by the audit

With the exception of the criteria regarding authority to deliver, for which the audit period started with events leading to the January 1966 Federal–Provincial Conference of Attorneys General on Organized Crime, the period audited for this chapter is from the beginning of the fiscal year 2006–07 until 1 November 2010.

Audit work for this chapter was substantially completed on 1 November 2010.

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Appendix List of recommendations

The following is a list of recommendations found in Chapter 5. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
Governing national police services	
5.23 Public Safety Canada, in consultation with the Royal Canadian Mounted Police, should work with partners to identify what national police services are required; to examine issues related to governance, accountability, and funding of national police services; and to propose a way forward for implementation. **(5.17–5.22)**	**Public Safety Canada's and the RCMP's response.** Agreed. Public Safety and the RCMP recognize that, due to the complexity of this issue, a long-term, concerted effort will be required, starting with the study, "A Feasible and Sustainable Model for Forensic Services Delivery in Canada," commissioned by Public Safety Canada. It is further recognized that, in order to sustain national police services in the future, agreement needs to be reached with partners on what services are required, and that issues related to governance, accountability, and funding need to be addressed. These issues are directly linked to the significant work required to address the other recommendations within this audit, including • identifying the services offered as part of national police services; • undertaking an analysis that includes cost to deliver the services; what has been funded; cost recovery efforts to identify gaps; the governance structure, which would include the ongoing study on alternative service delivery models and the RCMP's strategic discussion paper, and consultation with the provinces and territories; • developing options and outlining next steps for consideration by the government; and • negotiating funding arrangements with partners. Overlapping with this study would be the RCMP's National Police Services Renewal and Sustainability Initiative that is intended to provide an overall view of the delivery of national police services.

Recommendation	Response
5.29 The Royal Canadian Mounted Police should ensure partner representation in all national police services that best meets the needs of the users of these services. **(5.24–5.28)**	**The RCMP's response.** Agreed. The RCMP agrees that partner representation is important in all national police services in order to best meet the needs of the users of these services. A strategic discussion paper is expected to be completed by the end of the 2010–11 fiscal year, as part of the National Police Services Renewal and Sustainability Initiative. This initiative will examine the existing national police service governance structure to understand the current situation and articulate viable options for delivery of the services. The intended outcome of this activity is to ensure better partner representation in the national police services governance structure, allowing national police services to best meet their users' needs.
Funding national police services	
5.36 The Royal Canadian Mounted Police should complete as scheduled its National Police Services Renewal and Sustainability Project, including a detailed estimate of its transactional costs to provide each national police service, and monitor these costs over time. **(5.30–5.35)**	**The RCMP's response.** Agreed. The RCMP agrees that it should complete the National Police Services Renewal and Sustainability Initiative, which is currently continuing as planned. One of the intended outcomes of the National Police Services Renewal and Sustainability Initiative is to allow the RCMP to build a more robust and accurate method of costing of services. As well, a strategic national police services discussion paper, to be finished within the 2010–11 fiscal year, will include a review of national police services and their challenges, an articulation of potential options for governance and service delivery models, and recommendations for a long-term strategic vision. The discussion paper will be used as a vehicle to engage partner agencies in discussions concerning the future of national police services.
5.49 In addition to the study of Forensic Laboratory Services currently being conducted by Public Safety Canada, the Royal Canadian Mounted Police, in partnership with Public Safety Canada, should examine all national police services to determine whether different delivery models could provide a better service in an efficient and cost-effective manner. **(5.37–5.48)**	**The RCMP's and Public Safety Canada's response.** Agreed. The RCMP and Public Safety Canada agree that an examination of all national police services is appropriate to determine whether different delivery models may be more efficient and effective. The RCMP's National Police Services Renewal and Sustainability Initiative, along with the results of the Forensic Laboratory Study, will support the actions identified in the response to Recommendation 5.23 and will provide the foundation for future deliberations and discussions surrounding possible delivery options.

Status Report of the Auditor General of Canada to the House of Commons—2011

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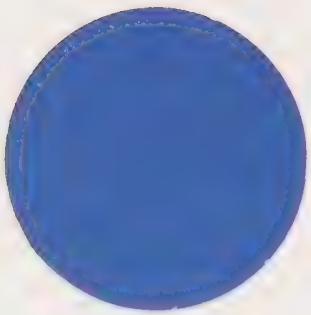
2011



Status Report
of the Auditor General of Canada to the House of Commons

Chapter 6
Regulating Medical Devices—Health Canada

Office of the Auditor General of Canada



2011



Status Report
of the
Auditor General of Canada
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Chapter 6
Regulating Medical Devices—Health Canada

Office of the Auditor General of Canada

The 2011 Status Report of the Auditor General of Canada comprises a Message from the Auditor General of Canada, Main Points—Chapters 1 to 6, an appendix, and seven chapters. The main table of contents for the Report is found at the end of this publication.

The Report is available on our website at www.oag-bvg.gc.ca.

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Chapter

6

Regulating Medical Devices—Health Canada

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Regulating Medical Devices—Health Canada

Main Points

What we examined

The term "medical devices" encompasses a wide range of medical, surgical, and dental products and instruments used to diagnose, treat, and prevent diseases and other physical ailments. They range from basic items, such as bandages, to complex devices such as pacemakers and diagnostic ultrasound systems.

As required under the *Food and Drugs Act*, Health Canada regulates the safety and effectiveness of all medical devices marketed in Canada. It does this through a combination of scientific review, monitoring, compliance, and enforcement activities, both before and after the devices reach the Canadian marketplace. The Department works toward ensuring that the public has timely access to safe and effective medical devices, and that those who need to know about related safety concerns are informed of them in a timely manner.

In March 2004 we reported concerns about the continued viability of the Medical Devices Program, given the increasing complexity and number of devices available in Canada and the resources allocated to the Program. We concluded that the Program was not sustainable with the resources it had. We made similar observations in our November 2006 Report.

In this audit, we examined Health Canada's progress in meeting commitments it made in response to selected recommendations from our previous reports. In particular, we examined the timeliness of the Department's review of applications to allow or deny medical devices to be sold in Canada. We also examined how it manages the risks related to medical devices already available on the Canadian market and how it meets its obligations for medical devices. In addition, we looked at international regulatory cooperation.

Audit work for this chapter was substantially completed on 29 October 2010.

Why it's important

Medical devices play an important role in all stages of the delivery of quality health care, from the most basic procedures, such as monitoring blood pressure and body temperature, to complex surgeries.

All are meant to improve the health and well-being of patients by helping to prevent, diagnose, and treat disease, to reduce pain and suffering, and to extend and save lives. Medical devices are increasing in number and complexity, due in part to medical and technological advances.

Close to 1.4 million different medical devices are currently on the Canadian market. Canadians rely on Health Canada for assurance that available medical devices are safe and effective. Users of medical devices also rely on Health Canada to promptly inform them of safety concerns related to medical devices that are in use.

What we found

- Overall, Health Canada has made unsatisfactory progress toward meeting commitments it made in response to recommendations in our 2004 and 2006 reports. Although it has accomplished much in some areas, the Department is not meeting its obligations under the Medical Devices Program, mostly at the pre-market stage. For example, more than 45 percent of the time it does not meet its service standards for timely review of medical device submissions, thus delaying Canadians' access to the health benefits of these devices. According to Health Canada, this problem is due to a funding shortfall caused in part by rapid growth in medical device technology and increasingly complex submissions.
- Health Canada does not know if it has allocated too much or not enough resources to post-market activities such as inspections and surveillance. The Department has not established what levels of activity are needed to protect the health and safety of Canadians. In addition, while the Department has identified risks associated with medical devices already available on the Canadian market, it has yet to determine whether the risks that the inspections and the review of incident reports are designed to address have been adequately mitigated.
- Health Canada recently developed strategies to increase cooperation at the pre-market stage with regulatory bodies in other countries. While we acknowledge the significant challenges involved, progress to date is unsatisfactory. The work has not taken advantage of foreign resources, information, and knowledge and has not yet improved regulatory performance.
- Health Canada has taken significant actions to meet some commitments made in response to other recommendations from previous reports. A major accomplishment was making the Medical Devices Program more sustainable than in previous years. The Department increased its funding to the Program and expects to

eliminate the remaining funding shortfall by implementing new user fees starting in the 2011–12 fiscal year. Another significant accomplishment has been establishing a national inspection program to assess compliance with the *Food and Drugs Act* and Regulations. The Department also increased its capacity to identify safety risks associated with medical devices on the market.

The Department has responded. The Department agrees with all of the recommendations. Its detailed responses follow the recommendations throughout the chapter.

Introduction

Medical devices in Canada

6.1 Canadians rely on a range of medical devices to prevent, diagnose, and treat diseases, disabilities, and other physical conditions. Devices such as dialysis equipment, pacemakers, and surgical lasers have improved or saved the lives of many Canadians and are indispensable to today's health care practitioners.

6.2 In Canada, the safety and effectiveness of medical devices are regulated under the *Food and Drugs Act* administered by Health Canada. The Act defines a medical device as "any article, instrument, apparatus or contrivance, including any component, part or accessory thereof, manufactured, sold or represented for use" in the medical treatment of human beings.

6.3 Medical devices are categorized in four classes (I, II, III, and IV) on the basis of the risks associated with their use and the controls necessary to provide reasonable assurance that they are safe and effective. Exhibit 6.1 lists the various classes of medical devices and the risk levels associated with their use.

Exhibit 6.1 Risk levels associated with classes of medical devices

Device Class	Risk Level	Examples
Class I	Lowest	Reusable surgical scalpel, bandages, culture media
Class II	Low	Contact lenses, epidural catheters, pregnancy test kits, surgical gloves
Class III	Moderate	Orthopaedic implants, glucose monitors, dental implants, haemodialysis systems, diagnostic ultrasound systems
Class IV	High	HIV test kits, pacemakers, angioplasty catheters

Source: Health Canada

Stakeholders and partners in medical devices

6.4 In addition to the federal government, in its role as regulator, there are a number of other important stakeholders and partners in medical devices.

6.5 **The public.** The primary stakeholder is the public. Members of the public buy and use medical devices to receive some health benefit.

However, with this benefit comes some level of potential risk, since the quality and safety of devices can never be absolutely guaranteed. The Canadian public has limited control over the risks and benefits to which it is exposed. Ultimately, Canadians must trust others, such as health care professionals and manufacturers of therapeutic products, to provide safe and effective services and products.

6.6 **Health care facilities and health care professionals.** Health care facilities, which are under the responsibility of provinces and territories, buy and use medical devices. Health care professionals provide advice on how to use or install medical devices. They also play a significant role in helping to ensure the continued safety of medical devices for the public. They are often the first to become aware of a problem with a device; this makes them a critical source of information on adverse incidents. They can help prevent future problems from occurring by passing this information on to manufacturers and/or the federal government in a timely manner.

6.7 **Medical devices industry.** The legal responsibilities of the medical devices industry are outlined in the *Medical Devices Regulations*, which place significant responsibility on manufacturers, importers, and distributors to do all they can to protect the health and safety of the public.

6.8 **Foreign regulatory authorities.** Health and safety concerns are shared by governments worldwide. Health Canada works with foreign regulators to develop international standards, harmonize regulations, and share information on adverse incidents involving medical devices. Participation in such activities can help the Department increase its capacity to make timely regulatory decisions about medical devices before they are sold in Canada, and to quickly identify risks associated with devices already on the Canadian market.

Health Canada's Medical Devices Program

6.9 Health Canada's Medical Devices Program is responsible for regulating the safety and effectiveness of medical devices both before and after they reach the Canadian marketplace. The program uses a regulatory framework based on risk management principles and scientific methods and seeks to emphasize public safety, while optimizing quality and effectiveness. The Department's responsibilities apply to all medical devices marketed in Canada, regardless of whether they are manufactured here or overseas.

6.10 The program uses a combination of scientific review, monitoring, and compliance and enforcement activities to pursue its goal of ensuring that medical devices available in Canada are safe and effective.

6.11 The Medical Devices Program is delivered jointly by the Health Products and Food Branch (composed of the Therapeutic Products Directorate, the Health Products and Food Branch Inspectorate, and the Marketed Health Products Directorate) and the Regions and Programs Branch. In the 2009–10 fiscal year, direct costs of the program amounted to $20.9 million. Its staff consisted of 185 full-time equivalent employees.

6.12 **Pre-market activities.** The Medical Devices Program regulates medical devices and their manufacturers, importers, and distributors, through two distinct licensing regimes: licensing of establishments and licensing of medical devices.

6.13 Health Canada requires manufacturers of Class I devices that do not sell through an establishment already holding a licence, as well as importers and distributors of any medical devices for human use, to obtain an establishment licence to sell their products in Canada. This requirement applies to organizations located in Canada and abroad. Establishment licences attest that the organizations holding them comply with regulatory requirements, and that those organizations have documented procedures to manage complaints, recalls, shipping, storage, and delivery of medical devices marketed in Canada. Health Canada issued 2,048 establishment licences in the 2008–09 fiscal year and 2,147 in the 2009–10 fiscal year. Establishment licences have to be renewed once a year. Because most of the establishment licences issued by Health Canada were renewals as opposed to new ones, both we and the Department considered this activity to be a post-market activity.

6.14 The *Medical Devices Regulations* require that manufacturers who are seeking a licence for a Class II, III, or IV device first demonstrate to Health Canada that they meet quality standards in the design and manufacturing of their medical devices. These standards are based on internationally accepted standards for quality systems.

6.15 Before issuing a device licence, Health Canada evaluates information provided by manufacturers in support of their claim that the device meets the safety and effectiveness requirements of the *Medical Devices Regulations*. The nature of the information required from manufacturers and evaluated by Health Canada depends on the risk rating of the device. If a high-risk device is modified, Health Canada must also authorize the change. As a result, Health Canada

reviews license applications for both new and modified devices. The average number of Class II, III, and IV medical device applications reviewed annually by Health Canada over a five-year period (fiscal years 2005–06 to 2009–10) was 4,007.

6.16 Post-market activities. The pre-market review process cannot identify or predict all possible malfunctions of the more than 1.4 million different medical devices currently on the Canadian market. Consequently, both industry and Health Canada must continually monitor and assess the safety of medical devices on the market, to protect the health and safety of Canadians. To do so, Health Canada receives reports of suspected problems from manufacturers, health care professionals, and consumers. The Department assesses the severity of the reported problems and takes action to mitigate the health and safety risks when necessary.

6.17 The Department also monitors recalls of medical devices by domestic and foreign manufacturers and conducts inspections of establishments that manufacture, import, or distribute medical devices. It monitors various sources of scientific and medical information to identify problems and potential risks related to medical devices on the market. Health Canada evaluates information that stems from these activities and takes action if it identifies a serious health risk. Such actions can include

- requiring that a manufacturer modify product labels and instructions on how to use devices,
- issuing warnings to the public and the health care community about potential device-related health and safety concerns, and
- advising industry to remove a product from the market.

What we found in our 2004 and 2006 audits

6.18 In March 2004, we concluded that the program was not sustainable in its (then) current state. We recommended that Health Canada review applications for medical devices, on a timely basis, and find ways to increase international regulatory cooperation. At the post-market stage, we recommended that Health Canada engage in active inspection of industry operations to verify compliance with regulations. We also recommended that it improve its post-market surveillance system to provide timely, accurate, and complete information about incidents involving medical devices.

6.19 In November 2006, as part of a broader examination of the allocation of resources to regulatory programs managed by Health Canada, we expressed concerns about the Department's ability to meet its obligations for medical devices. We found that the Department had not determined the level of activity required to meet its responsibilities. The Department committed to review the funding allocated to the Medical Devices Program and to renew its cost-recovery regime. It also committed to establish the level of activity required to meet its responsibilities for medical devices—along with corresponding performance targets and resource requirements.

Focus of the audit

6.20 The focus of our audit was to determine whether Health Canada has made satisfactory progress in implementing selected recommendations we have made on its management of the Medical Devices Program.

6.21 Because our 2004 audit concluded that the pre-market evaluation process was consistently followed, we focussed our audit on the timeliness of this process. We also examined the management of risks from medical devices already on the Canadian market. We focused our audit on four post-market activities:

- inspections,
- the review of incident reports,
- signal assessment and surveillance, and
- risk communication.

6.22 We also looked at actions taken by the Department to fund the program and to determine the level of activity required to meet its obligations for medical devices. Finally, we examined actions taken by the Department to increase international cooperation. We did not examine the monitoring of investigational testing (clinical trials), unlicensed devices, and the reuse of single-use devices. Also, we did not audit the process for allocating resources reported on in our 2006 report.

6.23 More details on the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

Observations and Recommendations

Funding for the Medical Devices Program

Funding for the program has increased over time

6.24 The sustainability of a program depends on both the amount and sources of its funding. Health Canada funds its ongoing program activities, such as regulatory compliance and enforcement, through public monies authorized by Parliament. Because the activities of Health Canada's Medical Devices Program also benefit the private sector, the government introduced user fees in 1996. Revenue from industry is used to pay for the costs of running the program and to provide services at specified levels.

6.25 Our 2004 audit noted that insufficient resources were allocated to deliver the Program. For the 2002–03 fiscal year, program funding for the direct costs of pre-market activities was $1.7 million plus $1 million for post-market activities, for a total of $2.7 million. The Department's funding was supplemented by user fees charged to industry to recover some costs. In the same fiscal year, Health Canada recovered $4.6 million. This brought its total program funding for direct costs to $7.3 million.

Direct costs —Costs of the Medical Devices Program that are directly related to the service activity, for example, the cost of an evaluator to review an application

6.26 Our 2006 audit showed that program funding for direct costs had increased to $8.8 million in the 2003–04 fiscal year, to $11.4 million in the 2004–05 fiscal year, and to $13.7 million in the 2005–06 fiscal year. We recommended that Health Canada review the funding allocated to regulatory programs to ensure programs received sufficient funding to meet the Department's obligations and to adequately protect the health and safety of Canadians. The Department agreed with our recommendation and committed to complete a review of funding allocated to regulatory programs by March 2008.

6.27 We examined the funding allocated to the Medical Devices Program for the 2008–09 and 2009–10 fiscal years. Because the Department does not track the funding by program, but by activity, we did not audit the financial information provided by Health Canada. We reviewed the information for consistency with information that we reported on in our 2004 and 2006 chapters. We also interviewed key officials and we ensured the reasonableness of the financial information provided by Health Canada.

6.28 We found that Health Canada allocated $10.1 million toward the direct costs of the program in the 2009–10 fiscal year (Exhibit 6.2), as compared to $2.7 million in the 2002–03 fiscal year (financial information presented in our 2004 report). Despite this increase, the

program continues to face challenges in meeting its responsibilities, as discussed in the next section.

Exhibit 6.2 Total funding for pre-market and post-market activities in the 2008–09 and 2009–10 fiscal years ($ millions)

	2008–09			2009–10		
	Pre-market	Post-market	Total	Pre-market	Post-market	Total
Health Canada funding						
Direct costs	4.9	5.4	10.3	5.0	5.1	10.1
Indirect costs	3.7	4.8	8.5	4.1	5.6	9.7
Total	8.6	10.2	**18.8**	9.1	10.7	**19.8**
Industry funding						
User fees	4.4	6.5	10.9	4.1	6.7	10.8
Total funding of the Medical Devices Program	13.0	16.7	**29.7**	13.2	17.4	**30.6**

Source: Health Canada (unaudited)

Indirect costs—Costs of the program that are not directly related to the service activity, for example, the cost of office space.

Health Canada is not meeting its obligations for the timely review of medical devices applications

6.29 According to the Cabinet Directive on Streamlining Regulations, "departments and agencies are responsible for putting in place the processes to implement regulatory programs and to manage human and financial resources effectively, including . . . planning for the necessary human and financial resources . . ." The 2007–2012 Medical Devices Strategic Plan describes one of its strategic objectives as having stable and adequate funding in place to meet all program requirements.

6.30 In our 2006 audit, we reported that program managers were concerned that some activities were insufficient to meet their obligations. We noted that Health Canada had no program baseline—that is, it had not determined the required level of activities that the Medical Devices Program must carry out to meet its regulatory responsibility of protecting the health and safety of Canadians, and had not identified performance targets for these activities and the resources needed to do this work. We recommended that it do so and the Department agreed to begin a review of the funding allocated to the program and to set a baseline by 31 March 2008.

6.31 We examined reviews undertaken by Health Canada to address our recommendation, as well as its operational plans and performance reports. We also interviewed key officials.

6.32 We found that Health Canada has established program baselines for its core pre-market activities, such as the review of applications for establishment licences and for medical devices licences. In particular, Health Canada has established the required level of activity to issue licences, and, in consultation with industry, has set service standards. However, Health Canada is not meeting these service standards for reviewing medical device applications (paragraphs 6.48 to 6.55). According to Health Canada, this is due to an estimated $4.2 million funding shortfall for the 2009–10 fiscal year. Because service standards for the review of medical device applications are not consistently met, we conclude that Health Canada is not meeting its obligations for this key activity. Our assessment of progress made on pre-market activities is found in Exhibit 6.7 (page 23).

Health Canada does not know if it is meeting its obligations for its post-market activities

6.33 We reported in our 2006 audit that program managers were concerned that some activities were insufficient to meet the Medical Devices Program's regulatory responsibilities. We examined the following post-market activities to determine if program baselines had been established:

- Inspections of establishments—on-site visits to assess how well an establishment conforms to sections of the Act and Regulations that mostly deal with either the safety or efficacy of medical devices or the administration of procedures designed to detect potential risks and respond when risks are identified.
- Review of incident reports—reviewing documentation of device-related incidents received from manufacturers, health care professionals, and the public, to assess the underlying cause and seriousness of the incident.
- Signal assessments and surveillance—continuous review of a variety of information sources, such as clinical and scientific literature and incident reports from foreign authorities, to assess and confirm possible connections (signals) between reported incidents and medical devices already on the market.
- Risk communications—to inform the public, industry, and health care professionals about risks associated with the use of medical devices on the market, using different communication tools, such

as public advisories and warnings, letters to health care professionals, notices to hospitals, and foreign product alerts.

Health Canada and the industry share the responsibility to communicate safety information about medical devices.

6.34 We examined operational plans and performance reports for the 2008–09 and 2009–10 fiscal years for the post-market activities included in the scope of the audit. We also interviewed key officials.

6.35 We found no complete baseline for any of the four examined post-market activities. In particular, Health Canada has not set the required level of effort for most of its post-market activities. For example, the Department has not determined how often establishments should be inspected to mitigate the identified risks. Therefore, it does not know whether it is doing too many or not enough inspections in a given year.

6.36 Furthermore, except for signal assessment and surveillance, performance targets have not been set for the other three post-market activities we examined. No performance targets exist for inspections of establishments, the review of incidence reports, or risk communications. Although it is more complex to set targets for risk communications because of the participation of industry and departmental staff involved in the process, it is quite reasonable and feasible to set performance targets for these three post-market activities.

6.37 Health Canada identified an estimated funding shortfall of $26.3 million for post-market activities in the 2009–10 fiscal year. But without a complete program baseline, the Department does not know if too much or not enough resources are allocated to these activities.

6.38 We conclude that the Department does not know if it is carrying out the required level of post-market activity and that it has not established a desired level of performance. In other words, the Department does not know if it is meeting its obligations for post-market activities. We therefore assess progress on our past recommendation related to establishing program baselines as unsatisfactory (Exhibit 6.3).

6.39 Recommendation. Health Canada should complete program baselines for post-market activities by defining the level of activities necessary to meet its obligation of protecting the health and safety of Canadians. It should also identify performance targets for these activities and the resources it needs to do this work.

The Department's response. Agreed. Health Canada is committed to completing the establishment of program baselines. In May 2010, the Department began evaluating the international landscape of medical device inspections as a first step toward determining an appropriate risk-based inspection cycle. As a result, the Department expects to establish and implement a more risk-based inspection cycle in the 2012–13 fiscal year.

In an effort to develop performance measures and baselines, Health Canada began reviewing the process of compliance verification activities in October 2010. The Department expects to establish appropriate baselines by the 2012–13 fiscal year.

The Department has already begun developing performance standards and targets for its post-market surveillance review-related activities and risk communications activities in 2009 and expects full implementation by the 2011–12 fiscal year. A plan to enhance the effectiveness of risk communications is being developed for implementation during the 2011–12 fiscal year.

Exhibit 6.3 Progress in addressing our recommendation on establishing program baselines

Recommendation	Progress
Health Canada should establish program baselines (for the Medical Devices Program) by defining the required level of activities that the programs must carry out in order to meet their regulatory responsibilities of protecting the health and safety of Canadians. It should also identify the targeted performance for these activities, and the resources needed to do this work. (See recommendation 8.27 of the 2006 November Report of the Auditor General of Canada, Chapter 8, Allocating Funds to Regulatory Programs—Health Canada)	Unsatisfactory

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Steps have been taken to address remaining funding shortfalls

6.40 In 2006, we recommended that Health Canada develop a reporting mechanism that would require program managers to inform the departmental Executive Committee systematically about significant funding shortfalls and their effects. The Department agreed with our recommendation and stated that directorates were now reporting program results and their regulatory responsibilities to the Branch Executive Committee.

6.41 We examined operational plans and performance reports for the 2008–09 and 2009–10 fiscal years and interviewed key officials. Program managers estimated a $4.2-million funding shortfall for pre-market activities and a $26.3-million funding shortfall for post-market activities for the 2009–2010 fiscal year. These shortfalls were discussed at the departmental level.

6.42 To address the long-standing funding shortfall for the Medical Devices Program, Health Canada began a project in 2004 to update its user fees. User fees had been established in 1996 and the cost to perform the regulatory services had increased since then. In May 2010, Parliament approved a proposal by Health Canada to increase user fees related to the evaluation, approval, and monitoring of medical devices. The new user fees will be governed by the *User Fees Act*, which provides for financial penalties to the regulator (Health Canada) if it does not meet service standards. (A key penalty for late processing of applications is that users may be granted fee reductions of up to 50 percent.) Health Canada has yet to amend the regulations before the new fees can come into force. New user fees are expected to be implemented in the 2011–12 fiscal year.

6.43 To update user fees, Health Canada had to establish the **full costs** of the program. We examined documents produced by the Department that supported the Proposal to Parliament to increase user fees. We did not audit Health Canada's analyses of these costs.

Full costs—The total cost of all resources used or consumed in delivering a program, including direct costs (such as salaries and employee benefit plans) and indirect costs (such as office space, information technology services, and human resource services).

6.44 According to Health Canada, it would cost $61.1 million to deliver the program in such a way that all obligations would be met. This amount includes the full costs of the program, namely $30.6 million for the 2009–10 fiscal year (Exhibit 6.2), as well as the estimated funding shortfalls of $4.2 million and $26.3 million that Health Canada has identified (paragraphs 6.32 and 6.37).

6.45 If the user fee proposal is implemented as proposed, Health Canada estimates that revenues will increase by about 160 percent, going from $10.8 million in the 2009–10 fiscal year to $27.9 million in the 2011–12 fiscal year. On that basis, industry would be covering about 46 percent of the total program cost of $61.1 million. Health Canada's contribution would increase from $19.8 million in the 2009–10 fiscal year to $31.6 million in 2011–12. Health Canada has stated that the additional $12 million required in the 2011–12 fiscal year to deliver the program will be achieved through a combination of cost reductions, program efficiencies, and possible internal reallocations of funds.

6.46 In 2006, we recommended that Health Canada, in consultation with clients, set user fees for medical devices program services that are based on clear and measurable service standards. As part of the user fee proposal, Health Canada developed new standards, in consultation with industry, that are measurable. Health Canada indicated that it intends to publish guidance that will clarify the interpretation of these new service standards.

6.47 We therefore assess the progress made on our past recommendations related to funding as being satisfactory (Exhibit 6.4).

Exhibit 6.4 Progress in addressing our 2004 and 2006 recommendations on funding

Recommendation	Progress
Health Canada should resolve the problems in its cost recovery program. It should determine the actual costs of the program and set fees based on those costs. (Recommendation 2.111 of the 2004 March Report of the Auditor General of Canada, Chapter 2, Health Canada—Regulation of Medical Devices)	Satisfactory
Health Canada should review the core funding allocated to [the Medical Devices Program] to ensure that it receives sufficient funding to meet regulatory responsibilities and to adequately protect the health and safety of Canadians. (See recommendation 8.43 of the 2006 November Report of the Auditor General of Canada, Chapter 8, Allocating Funds to Regulatory Programs—Health Canada)	Satisfactory
Health Canada should, in consultation with clients, set user fees for Medical Devices program services that are based on clear and measurable service standards. (See recommendation 8.46 of the 2006 November Report of the Auditor General of Canada, Chapter 8)	Satisfactory
Health Canada should develop a reporting mechanism that would require program managers to inform the departmental Executive Committee systematically about • the level of financial resources allocated to the Medical Devices Program, • results achieved with the funds, and • extent to which the program has met its regulatory responsibilities, including significant gaps and their consequences. (See recommendation 8.84 of the 2006 November Report of the Auditor General of Canada, Chapter 8)	Satisfactory

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Approving medical devices for sale in Canada

Health Canada's decisions on medical device applications are not timely

6.48 Health Canada conducts pre-market activities before it authorizes a company to market a medical device. These activities include reviewing submissions of scientific evidence by manufacturers to determine the device's safety and efficacy.

6.49 In 2004, we found that the pre-market evaluation process was consistently followed but there were delays in the authorizing of licences. We recommended that Health Canada ensure that Canadians have timely access to all available safe and effective devices. The Department agreed with our recommendation and stated that it would undertake a review to determine the reason(s) it was not meeting performance targets. It committed to begin taking corrective action in spring 2005.

6.50 The *User Fees Act* states that, before a regulating authority fixes, increases, or expands the application of a user fee or increases its duration, it must establish standards against which the performance of the regulating authority can be measured.

6.51 Both establishment licences and medical device licences are subject to user fees. As part of establishing its user fees, Health Canada had consulted with the Canadian medical device industry and established service standards (Exhibit 6.5).

Exhibit 6.5 Health Canada consulted with the Canadian medical devices industry to set service standards

Service activity	Service standard for completing activity	Performance target for the service standard
Authorizing device licences		
Class II: review time to first decision*	15 calendar days	90%
Class III: review time to first decision	75 calendar days	
Class IV: review time to first decision	90 calendar days	

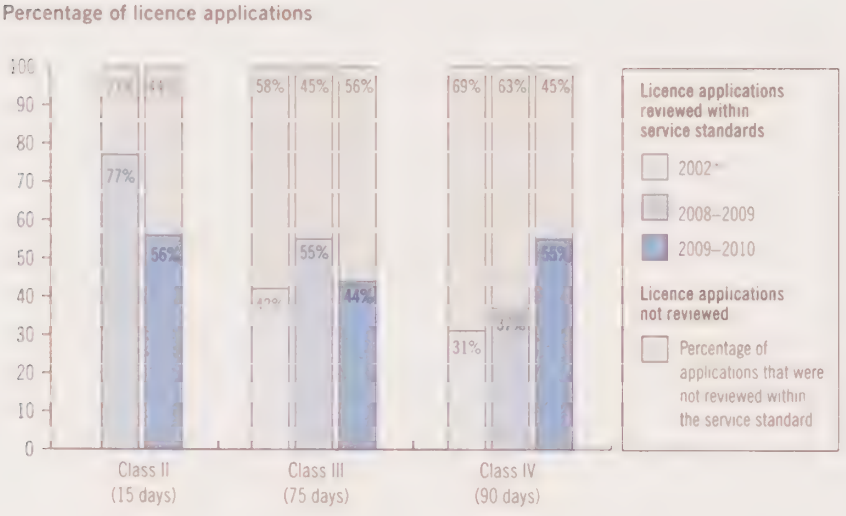
*A first decision can either be a decision to request additional information from the applicant or a final decision to either approve or deny the application for a medical device licence.

6.52 To determine the timeliness of Health Canada's decisions to approve or deny a medical device licence, we examined whether the Department was meeting its established service standards for its review of Class II, III, and IV medical device licence applications. We also examined management reports related to program performance for the period under audit, analyzed the database on licences issued, and interviewed key officials.

6.53 We found that the Department is not consistently meeting its service standards related to applications for medical device licences. For example, first decisions were made within the 90-day service standard for only 55 percent of Class IV medical device applications in the 2009–10 fiscal year. As well, our analysis of the number of days to review a Class IV medical device application in the 2009–10 fiscal year showed that 45 percent of these applications required longer than the 90-day service standard, by an average of 63 days.

6.54 Meeting service standards for medical devices has been a long-standing issue for Health Canada. In our 2004 audit, we reported that, in 2002, an estimated 42 percent of Class III medical devices were processed within the service standard of 75 days, and that an estimated 31 percent of Class IV medical devices were processed within the service standard of 90 days. The performance reflected in Exhibit 6.6 for the 2008–09 and 2009–10 fiscal years shows that meeting service standards continues to be a problem.

Exhibit 6.6 Health Canada has consistently fallen short of its service standards for reviewing applications



* Data from 2002 was collected during our 2004 audit. At that time, we did not collect data on applications for Class II medical devices. The percentages for Class III and IV applications were estimated from a random sample of applications.

6.55 Health Canada indicated that factors contributing to the delays in reviews include the rapid growth of medical device technology with more products using, for example, nanotechnology. This means that more hours are needed to complete a review. According to Health

Canada officials, other factors contributing to delays in reviews include reviewers having to complete tasks other than review work. These factors include responding to regulatory questions, information technology that is outdated, lack of funding and staff, and an increased number of requests for additional information because applications are incomplete. The case study on Health Canada's decision on an application for an automated blood collection system shows that service was not timely.

Case Study—Automated Blood Collection System

The automated red cell collection system is a device that allows blood collectors to collect two units of red cells from a single donor instead of one unit. Health Canada received an application from an American company for this Class III device on 14 September 2007. Although the service standards indicate that a first review for a Class III device application must be processed within 75 days, the first review took more than 7 months (221 days), which is almost 5 months (146 days) more than the service standard. At the end of this first review, Health Canada requested additional information to the manufacturer. It took more than three weeks for the manufacturer to respond to the request. It then took Health Canada more than two months to conduct its second review and to reach its final decision to approve the device. Almost 11 months (333 days) had elapsed since the date the application was submitted.

Untimely decisions can have important consequences

6.56 Both the Canadian public and health care professionals benefit from having timely access to safe and effective medical devices. While it is important that Health Canada take the necessary time to properly evaluate a device for safety and therapeutic effectiveness, delays in authorizing licences means Canadians' access to the health benefit of these devices is delayed.

6.57 To understand the consequences of untimely decisions for industry, we surveyed 77 US manufacturers who, between April 2008 and March 2010, had been issued a licence for a new Class III or IV medical device by Health Canada. We sent the survey only to US manufacturers because they represent almost half of all licences issued by Health Canada for Class III and IV medical devices. Of the 77 companies surveyed, we received 52 responses (a response rate of 68 percent).

6.58 Of the 52 responses we received, 28 were from companies whose applications had not been approved within the service standard. Of these, 17 told us that the consequences for them of Health Canada's delayed approval included delayed launches of their devices to the public and loss of sales. Although not specifically mentioned in the

responses, delayed approvals also mean that Canadians' access to the health benefit of these devices is delayed.

6.59 Untimely decisions to approve or deny a medical device licence may also have financial consequences for Health Canada. The *User Fees Act* states that, before a regulating authority fixes, increases, or expands the application of a user fee or increases its duration, it must establish standards against which the performance of the regulating authority can be measured. When new user fees come into effect, the regulator (in this case, Health Canada) may suffer financial penalties—fee reductions of up to 50 percent for users—if it fails to meet service standards.

6.60 **Recommendation.** Health Canada should ensure that it meets service standards for the review of medical device applications so that Canadians and health care professionals have timely access to safe and effective devices.

The Department's response. Agreed. Health Canada has received Parliamentary approval to increase user fees for medical devices. Once implemented, these fees will contribute to more stable funding for key regulatory services such as product reviews, post-market surveillance, and inspections. Increased revenues will be reinvested into specific activities for which the fees were collected. These revenues will allow Health Canada to meet its well-established and internationally recognized performance standards. The Department anticipates meeting the service standards associated with the Cost Recovery Proposal by April 2012.

Health Canada could benefit from increased international cooperation for its pre-market activities

6.61 According to the Cabinet Directive on Streamlining Regulations, departments and agencies are to take advantage of opportunities for cooperation, either bilaterally or multilaterally. Our 2004 Report included a recommendation, accepted by Health Canada, that the Department consider engaging in activities that would allow it to benefit from international regulatory cooperation for its pre-market activities. For this audit, we examined departmental documentation related to international activities. We also interviewed key officials at Health Canada.

6.62 Health Canada's 2007 Blueprint for Renewal II commits the Department to enhanced international cooperation by focusing resources on working within existing agreements to improve regulatory performance. This includes activities that would support Health

Canada's decision making, for example, the sharing of real-time information on risk assessments and product reviews.

6.63 Health Canada recognizes the benefits of making direct use of foreign reviews, such as

- drawing on expertise, held by another jurisdiction, in a subject area;
- better efficiency in the application review process; and
- better resource management, including the reallocation of resources to priority or complex applications.

6.64 To assess the potential benefits of international cooperation, we asked the companies we surveyed to tell us whether the device for which they sought Health Canada's approval had been previously approved by Europe, the United States, Australia, or Japan; and, if so, when that approval had been granted. We did not compare Health Canada's review time to that of other jurisdictions. Of the 52 responses we received from US companies, 42 stated that the medical device for which they sought Health Canada's approval had already been approved in one or more of the listed jurisdictions. Devices had been on the market in other jurisdictions for an average of two years before companies applied to Health Canada for approval.

6.65 Therefore, our survey results show that opportunities exist for Health Canada to make use of assessment work done in other jurisdictions in its own assessment of the safety and efficacy of medical devices with a view to increase the efficiency of its processes.

6.66 We found that, so far, Health Canada's international strategies have mainly focused on the harmonization of medical devices regulations, an area the Department has been involved in for almost 20 years. The Department is a founding member of the Global Harmonization Task Force (GHTF), created in 1992 to respond to the growing need for international harmonization of the regulations. The GHTF is a voluntary group of regulatory officials and industry representatives from the European Union, the United States, Canada, Australia, and Japan and from non-governmental organizations.

6.67 Health Canada has had some success in cooperating with one jurisdiction. Since 2004, Health Canada has been working with the Australian government's Therapeutic Goods Administration on the reciprocal recognition of **quality system audits** for medical device manufacturers. As of October 2010, both regulators are able to accept each other's audit results. Because this initiative is so new,

Quality system audit—Audit of quality control and quality assurance systems put in place by a manufacturer to prevent and control problems in the design and manufacturing process.

Health Canada has not yet received Australia's recent audit results, so efficiencies have not yet been realized.

6.68 Although Health Canada has been able to cooperate with other jurisdictions in other areas of importance, we found that strategies aimed at making direct use of foreign reviews to enhance the efficiency of Health Canada's medical device review process were only recently developed—six years after our 2004 recommendation related to this was accepted by the Department. In June 2010, the Department approved a Master Plan for the Use of Foreign Regulatory Information in the Regulatory Review of Health Products. This plan's objectives are to enhance the efficiency of the Department's review process and to improve Canadians' timely access to devices that are safe and of high quality.

6.69 As of October 2010, the Department had developed guidance on the extent to which foreign reviews can be used. It also developed an approach to enhance participation on foreign regulatory scientific committees. Health Canada officials told us that a pilot project on the use of foreign reviews should be implemented in the 2011–12 fiscal year.

6.70 Health Canada has recognized that there are challenges in realizing the potential of international cooperation, and we concur. Such challenges include

- the availability and scientific quality of foreign review reports,
- foreign regulatory authorities' legal frameworks enabling the sharing of complete reviews,
- the lack of legal authority in Canada to compel industry to provide foreign reviews when submitting an application, and
- maintaining the integrity of Health Canada's scientific capacity while making more systematic use of foreign reviews.

Although these are significant challenges, Health Canada recognizes that there are advantages to increasing the level of international regulatory cooperation.

6.71 Because initiatives that could improve the efficiency of Health Canada's review process are recent and have not yet had a positive impact on regulatory performance, we conclude that Health Canada has made insufficient progress in its efforts to work cooperatively with international jurisdictions to leverage resources, information, and knowledge related to pre-market assessments of medical devices

(Exhibit 6.7). Health Canada is not making direct use of foreign reviews that could lead to program efficiencies.

6.72 Recommendation. Health Canada should implement the Master Plan for the Use of Foreign Regulatory Information, which it developed in 2010, for international cooperation at the pre-market stage, with a view to improving regulatory performance by making use of resources, information, and knowledge from other jurisdictions.

The Department's response. Agreed. Health Canada has begun implementing a three-year plan to make more efficient, consistent, and systematic use of international regulatory information for pre-market assessments and expects to have the plan fully operational by March 2013. The Department will continue collaborating with international counterparts to allow timely and complete access to information from other jurisdictions.

Exhibit 6.7 Progress in addressing our recommendations for pre-market activities

Recommendation	Progress
Health Canada should ensure that Canadians have timely access to all available safe and effective devices. More specifically, it should ensure that all devices are approved within the performance targets and should consider engaging in activities that would allow it to benefit from international regulatory co-operation. (Recommendation 2.75 of the 2004 March Report of the Auditor General of Canada, Chapter 2, Health Canada—Regulation of Medical Devices)	Unsatisfactory

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Managing risks from devices available in Canada

Health Canada has significantly expanded its post-market activities

6.73 Post-market activities are conducted once a device has come onto the Canadian market. They focus on product safety and effectiveness, and regulatory compliance. We examined the following post-market activities:

- inspections of establishments,
- the review of incident reports,
- signal assessment and surveillance, and
- risk communication.

6.74 We noted in our 2004 audit that health and safety risks at the post-market stage needed to be better managed. Health Canada agreed to review its (then) current level of post-market activities and to develop an action plan to address our findings by spring 2005.

6.75 To determine whether the Department adequately managed the risks related to medical devices available on the Canadian market, we examined the steps taken by the Department to allocate resources to devices presenting the greatest risk. We reviewed management reports related to program performance for the period under audit and we interviewed program officials. As mentioned in paragraph 6.27, we did not audit the financial information provided by Health Canada.

6.76 We found that the Department has significantly increased the level of funding for the direct costs of its post-market activities since 2004. In our 2004 report, we observed that Health Canada allocated close to $3 million to its post-market activities, including revenues from user fees. In the 2009–10 fiscal year, the Department allocated $11.8 million to its post-market activities, including user fees, which represents a 293 percent increase.

6.77 In 2004, the Department established a national inspection program to assess the industry's compliance with the *Food and Drugs Act* and the *Medical Devices Regulations*. Health Canada stated that the number of establishments it inspected annually has steadily increased since the introduction of the program to reach 226 inspections in the 2009–10 fiscal year, or 14 percent of the licensed establishments located in Canada.

6.78 We noted that the number of reports on device-related incidents received from manufacturers, health care professionals, or the public has increased since our last audit. In 2004, we reported that Health Canada received 1,000 incident reports in the 2001–02 fiscal year. The Department has stated that the number rose to 4,867 in the 2009–10 fiscal year, an increase of 387 percent. In 2009, the Department established, on a pilot basis, a network involving 10 health care facilities across Canada to further improve the number and quality of incident reports collected. As part of this pilot, Health Canada obtains information on incidents from each of the participating facilities. During the first year of the pilot, these sites prepared 161 incident reports.

6.79 The Department has also increased its capacity to carry out surveillance activities and signal assessments (paragraph 6.33). In 2004, we reported that Health Canada had no proactive system for

identifying patterns in incident reports or complaints that could signal a serious safety concern. Health Canada has since developed its capacity to proactively identify safety risks and take steps to address them. In the 2009–10 fiscal year, Health Canada told us that it detected 49 signals requiring additional analysis and did an in-depth assessment of 17.

Health Canada identifies risks for key post-market activities but does not know if they are adequately mitigated

6.80 The Health Products and Food Branch mandate includes "minimizing health risk factors to Canadians while maximizing the safety provided by the regulatory system for health products and food." We examined whether Health Canada allocates its resources to medical devices that present the greatest risk to the health and safety of Canadians.

6.81 One of the key strategic actions identified in the Health Products and Food Branch Strategic Plan 2007–2012 is to strengthen post-market activities, which includes surveillance and monitoring of medical devices' safety and therapeutic effectiveness. In addition, two objectives of Health Canada's Blueprint for Renewal II are to ensure that regulatory scrutiny is consistent with the risks posed by a product and to develop a stronger post-market surveillance system.

6.82 **Inspection of establishments.** We reviewed Health Canada's inspection strategy, which has been in force since 2003, and the annual inspection plans for the 2008–09 and 2009–10 fiscal years, as well as guidelines for carrying out inspections and management reports on performance. We also interviewed program officials.

6.83 According to Health Canada, there were 1,624 companies in Canada subject to inspection in the 2009–10 fiscal year. Because the *Medical Devices Regulations* place significant responsibility for protecting the health and safety of Canadians on the industry itself, it is particularly important that Health Canada assess its activities. Since it is not feasible for Health Canada to inspect every establishment each year, the Department has adopted a risk-based approach for this activity.

6.84 Annual inspection plans identify the establishments that pose the greatest risk of non-compliance with the *Food and Drugs Act* and *Medical Devices Regulations*. For 2009–10, these are

- Class I manufacturers;
- Class III and IV importers;

- manufacturers of house brands (for example, store brand toothbrushes); and
- establishments that have had an establishment licence for more than five years without an inspection.

Because manufacturers of Class II, III, and IV devices are subject to quality systems audit, they have been excluded from the risk-based inspection plans. However, Health Canada can still inspect these manufacturers when warranted.

6.85 Once the highest-risk establishments have been identified through the risk-based inspection plan, it is up to Health Canada's regional offices to select the establishments and carry out the actual inspections. Health Canada prepares quarterly reports that present results achieved through inspections. However, the Department does not compile information from regional offices on the number of establishments inspected by risk criteria outlined in the inspection plan. This means that Health Canada does not know if the risks identified in the yearly inspection plan are being adequately mitigated and whether resources are being allocated to devices that present the greatest risk.

6.86 We found that the 2009–10 risk-based inspection plan did not consider the 523 licensed establishments identified by Health Canada as being located outside of Canada when it determined which establishments posed the greatest risk. Establishments located outside of Canada represent 24 percent of the 2,147 licence holders. This means that Health Canada has no information on the risks posed by these establishments. Indeed, inspection activities have always excluded companies located outside of Canada. The strategy, developed in 2003, advises inspectors to contact companies located outside of Canada to ask for and review information and records and to assess compliance with the regulations. To date, this has not been done. Health Canada has recently stated that it will develop a pilot project in the 2010–11 fiscal year to inspect foreign establishments.

6.87 **Recommendation.** Health Canada should assess the risks posed by foreign establishments and consider the results of this assessment when it develops the annual risk-based inspection plan and carries out the inspections to ensure that the risks are adequately addressed.

The Department's response. Agreed. Health Canada identified this area as a priority in its 2010–2011 inspection operational plan and has already begun preliminary work in this area. The Department expects to conduct a risk assessment of foreign establishment licence holders

by the end of 2011–12. Any further activities may require regulatory amendments and will depend on both the results of the above risk assessments and an analysis of existing legislation.

6.88 **Incident reports.** Health Canada developed criteria to assess incidents, which include the

- likelihood of similar incidents;
- population at risk;
- benefits from the device;
- magnitude of public and professional concern;
- user qualifications (professional, trained user versus unqualified, untrained user);
- potential effectiveness of regulatory action; and
- user awareness of the problem.

6.89 However, we found that Health Canada does not assess whether incident reports on specific devices have been reviewed according to the risks identified for that device or that incident reports are reviewed in a timely manner. Without this information, it is difficult for Health Canada to know if the risks identified are being adequately mitigated and whether resources are being allocated to devices that present the greatest risk.

6.90 **Recommendation.** Health Canada should regularly assess whether resources have been allocated to the identified risks for inspections and the review of incident reports and whether these risks have been adequately mitigated.

The Department's response. Agreed. Health Canada will continue to assess whether resources have been allocated to identify risks by determining an appropriate risk-based inspection cycle and establishing appropriate baselines as described in the Department's response to Recommendation 6.39. In addition, the Department will evaluate incident reporting through the Sentinel system and establish performance standards consistent with other product lines by the 2011–12 fiscal year. Data from medical device incident reports, other post-market activities, and associated performance measures will be used to identify high-risk areas requiring risk mitigation activities. The Department will also endeavour to determine, to the extent possible, whether the identified risks have been mitigated.

6.91 Signal assessment and surveillance. We found that Health Canada has a process in place to assess risks for the signals it detects, based on established criteria. These criteria include death, life threatening event, hospitalization (required or prolonged), disability, or incapacity caused by or related to the use of a medical device. Resources are then allocated to the higher risk signals.

6.92 Risk communication. In 2004, we reported that the Department had never developed a communications plan or communications strategy to inform the public, industry, and health care professionals about risks associated with the use of certain medical devices on the market. We found that, since our 2004 audit, Health Canada has developed a guide for risk communication activities involving medical devices. The guide describes the various risk communication tools that the Department and industry can employ. It also outlines what type of communication tool to use depending on the urgency of the situation and the targeted audience. Health Canada stated that when a risk communication is needed, it is considered a high priority and takes precedence over other tasks. This allows the Department to allocate its resources to areas of greatest risk within the Medical Devices Program.

6.93 However, we also found that Health Canada has not assessed whether its risk communications for medical devices effectively reach their target audiences and do so in a timely manner. Without such assessments, it is difficult for Health Canada to determine if its risk communication activities for medical devices are timely or if they are reaching target audiences.

6.94 Recommendation. Health Canada should assess whether its communications to inform the public, industry, and health care professionals about risks associated with medical devices on the market are effectively reaching their target audiences and doing so in a timely manner.

The Department's response. Agreed. Health Canada will undertake a systematic evaluation of the effectiveness of its risk communications for all product lines, including medical devices. The plan will identify current gaps and challenges with risk communication evaluation and will highlight short-term, medium-term, and long-term activities aimed at systematic evaluation of Health Canada's risk communication tools. This plan will be initiated in the 2011–12 fiscal year with an anticipated completion date of the 2013–14 fiscal year.

Health Canada is working cooperatively with international jurisdictions on post-market activities but needs to determine if further actions are necessary

6.95 Health Canada has stated that it intends to pursue opportunities to work cooperatively with international jurisdictions. We examined documents related to international cooperation to support Health Canada's post-market activities for medical devices. We also interviewed program officials at Health Canada.

6.96 We found that Health Canada is working with international jurisdictions and has updated a guidance document on incident reporting. This update is based on the work that the Department is doing with the Global Harmonization Task Force. In addition, the Department indicated that it makes use of foreign incident data to inform signal assessments and surveillance activities. It has also developed a post-market surveillance strategy called Planning for Our Future: Federal Regulatory Post-Market Surveillance Strategy 2007–2012. This strategy states that the Department would like to increase its capacity for systematically reviewing foreign incident reports. However, the strategy does not describe concrete actions that it needs to take to do so, with accompanying timelines and resources. Furthermore, the Department has not determined whether further actions are necessary for other key post-market activities such as inspections, signal assessments, and risk communications.

6.97 We conclude that Health Canada is working cooperatively with international jurisdictions on post-market activities by leveraging resources, information, and knowledge on incident reports, but it needs to determine if further actions are necessary.

6.98 **Recommendation.** Health Canada should determine whether it needs to take additional steps to increase international cooperation for its post-market activities. If so, the Department should identify concrete actions to be taken, along with timelines and needed resources.

The Department's response. Agreed. Over the next three years, Health Canada will identify gaps in international cooperation for post-market activities and the steps needed to increase international collaboration for post-market activities such as inspections, signal assessments, and communications. A three-year implementation work plan (2010–2013) will be developed.

6.99 **In summary.** Overall, we found that Health Canada has made satisfactory progress in implementing our past recommendation on post-market activities. The Department has established a national inspection program and has increased its capacity to analyze post-market surveillance information and incident reports (Exhibit 6.8). Health Canada allocates its resources to medical devices that pose the greatest risk for signal assessment and surveillance. However, the Department has yet to determine whether the risks associated with medical devices available on the Canadian market (that establishment inspections and the review of incident reports are designed to address) have been adequately mitigated, and whether its risk communications reach the target audiences and do so in a timely manner. Therefore, Health Canada is not adequately managing the risks related to medical devices available on the Canadian market for these three post-market activities.

Exhibit 6.8 Progress in addressing our recommendations on post-market activities

Recommendation	Progress
Health Canada should ensure that it manages the risks and benefits related to medical devices after they are available for sale. More specifically, it should • engage in active inspection of industry operations at the post-market phase to verify compliance with the Regulations; • improve the collection, analysis, and interpretation of post-market surveillance information by increasing the number and quality of adverse events reports collected and by improving its analytical and interpretive capability; and • improve its approach to communication of safety concerns so that those who need to know are informed in a timely manner. (See recommendation 2.100 of the 2004 March Report of the Auditor General of Canada, Chapter 2, Health Canada—Regulation of Medical Devices)	Satisfactory

Satisfactory –Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory –Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Conclusion

6.100 Overall, we concluded that Health Canada has not made satisfactory progress in acting on commitments it made in response to recommendations from our 2004 and 2006 reports. While overall program funding has increased and program capacity has been enhanced, primarily at the post-market stage, the Department is not fully meeting its obligations in relation to medical devices.

6.101 Decisions on applications for medical device licences are not delivered in a consistently timely way. As a result, the service standards agreed to between the Department and industry are often not met. This delays access to these devices by Canadians and health care professionals.

6.102 Health Canada has significantly expanded its post-market activities by, for example, establishing a national inspection program, and has identified risks associated with medical devices already available on the Canadian market. It has yet to determine whether the risks that the establishment inspections and the review of incident reports are designed to address have been adequately mitigated, and whether its risk communications reach the target audiences and do so in a timely manner. Therefore, Health Canada is not adequately managing the risks related to medical devices available on the Canadian market for these three post-market activities.

6.103 Greater cooperation with foreign regulatory bodies has the potential to improve the Medical Devices Program's regulatory performance. The Department's work to date on the international front has not taken advantage of foreign resources, information, and knowledge at the pre-market stage.

About the Audit

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Objectives

The overall audit objective was to determine whether Health Canada has made satisfactory progress in implementing selected recommendations from previous reports from the Auditor General of Canada about adequately managing the Medical Devices Program.

The audit sub-objectives were to determine whether the Department

- makes timely decisions about allowing medical devices to be sold in Canada,
- adequately manages the risks related to medical devices available on the Canadian market, and
- meets its obligations for medical devices.

Scope and approach

Our audit focused on the three directorates involved in the delivery of the Medical Devices Program and examined whether selected previous recommendations associated with activities undertaken at the pre-market and post-market stages and relating to program management have been implemented.

At the pre-market stage, we examined the timeliness of reviews of medical device applications, and the steps taken to increase program efficiency through international regulatory cooperation with key regulatory agencies in such countries as the United States and Australia. As well, we randomly sampled 100 market authorizations from 602 Class III and IV applications from US manufacturers. We did this to cover the period between April 2008 and March 2010, using the provision that the sample include no more than one submission per applicant. Seventy-seven of the sampled authorizations had valid applicant contact information and the corresponding applicants were surveyed.

At the post-market stage, we examined the steps taken by the Department to allocate resources to devices presenting the greatest risk and to increase program efficiency through international regulatory cooperation.

Finally, we reviewed departmental efforts to

- determine required levels of activity, performance, and funding necessary to meet its obligations;
- monitor program performance against such requirements; and
- report on and address performance and funding gaps, as appropriate.

We examined the funding allocated to the Medical Devices Program for the 2008–09 and 2009–10 fiscal years. Because the Department tracks the funding by activity, and not by program, we did not audit the

financial information provided by Health Canada. We reviewed the information for consistency with information presented in our 2004 and 2006 reports. We also interviewed key officials and we ensured the reasonableness of the financial information provided by Health Canada.

We collected evidence through interviews with key Health Canada officials involved with the program at headquarters and in several regional offices. We met with representatives from the medical devices industry and the health care field. We reviewed documentation, including regulations, operational plans, performance reports, and program reviews. We also surveyed companies to which Health Canada had issued a licence for a new medical device in the 2008–09 and 2009–10 fiscal years.

We did not examine the monitoring of investigational testing (clinical trials), unlicensed devices, and the reuse of single-use devices. As well, we did not audit the process of resource allocation reported in our 2006 report.

Criteria

To determine whether the Department makes timely decisions about allowing medical devices to be sold in Canada, we used the following criteria:	
Criteria	**Sources**
Health Canada reviews licence applications for medical devices in a timely manner.	• *User Fees Act*, section 4(2)(c) • Policy on Management of Applications for Medical Device Licences and Investigational Testing Authorizations, Health Canada, 2001
Health Canada works cooperatively with international jurisdictions by leveraging resources, information, and knowledge related to pre-market assessments of medical devices assessments.	• Cabinet Directive on Streamlining Regulations, section 4.4, Treasury Board, 2007 • Health Products and Food Branch 2007–12 Strategic Plan: Protecting and Promoting the Health and Safety of Canadians, Health Canada, 2007 • Blueprint for Renewal II: Modernizing Canada's Regulatory System for Health Products and Food, Health Canada, 2007

To determine whether the Department adequately manages the risks related to medical devices available on the Canadian market, we used the following criteria:	
Criteria	**Sources**
Health Canada allocates its resources to medical devices that present the greatest risk to the health and safety of Canadians.	• Cabinet Directive on Streamlining Regulations, section 4.5, Treasury Board, 2007 • Regulation of Medical Devices, Auditor General of Canada, 2004—Departmental response to recommendation 2.100 • Medical Devices Program Strategic Plan 2007–12: Building for the Future, Health Canada, 2007 • Health Products and Food Branch 2007–12 Strategic Plan: Protecting and Promoting the Health and Safety of Canadians, Health Canada, 2007 • Blueprint for Renewal II: Modernizing Canada's Regulatory System for Health Products and Food, Health Canada, 2007

To determine whether the Department adequately manages the risks related to medical devices available on the Canadian market, we used the following criteria: (continued)	
Criteria	**Sources**
Health Canada works cooperatively with international jurisdictions by leveraging resources, information, and knowledge on device-related incidents, inspections, signal assessments and surveillance, and risk communications.	• Cabinet Directive on Streamlining Regulations, section 4.4, Treasury Board, 2007 • Health Products and Food Branch 2007–12 Strategic Plan: Protecting and Promoting the Health and Safety of Canadians, Health Canada, 2007 • Blueprint for Renewal II: Modernizing Canada's Regulatory System for Health Products and Food, Health Canada, 2007
To determine whether the Department meets its obligations for medical devices, we used the following criteria:	
Criteria	**Sources**
Health Canada determines the required levels of activity, performance, and funding needed to meet its obligations.	• Cabinet Directive on Streamlining Regulations, section 4.5, Treasury Board, 2007 • Allocating Funds to Regulatory Programs, Auditor General of Canada, 2006—departmental response to recommendations 8.27 and 8.43 • Medical Devices Program Strategic Plan 2007–12: Building for the Future, Health Canada, 2007
Health Canada meets the required levels of activity, performance, and funding needed to fulfill regulatory and program responsibilities.	• Cabinet Directive on Streamlining Regulations, section 4.6, Treasury Board, 2007
Health Canada identifies and addresses performance and funding gaps/shortfalls, as needed.	• Cabinet Directive on Streamlining Regulations, section 4.6, Treasury Board, 2007 • Allocating Funds to Regulatory Programs, Auditor General of Canada, 2006—departmental response to recommendation 8.84 • Budget Management Framework Handbook, Health Canada, 2007 • A Manager's Guide to Operating Budgets, Treasury Board, 1992

Management reviewed and accepted the suitability of the criteria used in the audit.

Period covered by the audit

The audit covered the period of 1 April 2008 to 31 March 2010. Audit work for this chapter was substantially completed on 29 October 2010.

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Appendix List of recommendations

The following is a list of recommendations found in Chapter 6. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
Funding for the Medical Devices Program	
6.39 Health Canada should complete program baselines for post-market activities by defining the level of activities necessary to meet its obligation of protecting the health and safety of Canadians. It should also identify performance targets for these activities and the resources it needs to do this work. (6.33–6.38)	Agreed. Health Canada is committed to completing the establishment of program baselines. In May 2010, the Department began evaluating the international landscape of medical device inspections as a first step toward determining an appropriate risk-based inspection cycle. As a result, the Department expects to establish and implement a more risk-based inspection cycle in the 2012–13 fiscal year. In an effort to develop performance measures and baselines, Health Canada began reviewing the process of compliance verification activities in October 2010. The Department expects to establish appropriate baselines by the 2012–13 fiscal year. The Department has already begun developing performance standards and targets for its post-market surveillance review-related activities and risk communications activities in 2009 and expects full implementation by the 2011–12 fiscal year. A plan to enhance the effectiveness of risk communications is being developed for implementation during the 2011–12 fiscal year.
Approving medical devices for sale in Canada	
6.60 Health Canada should ensure that it meets service standards for the review of medical device applications so that Canadians and health care professionals have timely access to safe and effective devices. (6.48–6.59)	Agreed. Health Canada has received Parliamentary approval to increase user fees for medical devices. Once implemented, these fees will contribute to more stable funding for key regulatory services such as product reviews, post-market surveillance, and inspections. Increased revenues will be reinvested into specific activities for which the fees were collected. These revenues will allow Health Canada to meet its well-established and internationally recognized performance standards. The Department anticipates meeting the service standards associated with the Cost Recovery Proposal by April 2012.

Recommendation	Response
6.72 Health Canada should implement the Master Plan for the Use of Foreign Regulatory Information, which it developed in 2010, for international cooperation at the pre-market stage, with a view to improving regulatory performance by making use of resources, information, and knowledge from other jurisdictions. **(6.61–6.71)**	Agreed. Health Canada has begun implementing a three-year plan to make more efficient, consistent, and systematic use of international regulatory information for pre-market assessments and expects to have the plan fully operational by March 2013. The Department will continue collaborating with international counterparts to allow timely and complete access to information from other jurisdictions.
Managing risks from devices available in Canada	
6.87 Health Canada should assess the risks posed by foreign establishments and consider the results of this assessment when it develops the annual risk-based inspection plan and carries out the inspections to ensure that the risks are adequately addressed. **(6.82–6.86)**	Agreed. Health Canada identified this area as a priority in its 2010–2011 inspection operational plan and has already begun preliminary work in this area. The Department expects to conduct a risk assessment of foreign establishment licence holders by the end of 2011–12. Any further activities may require regulatory amendments and will depend on both the results of the above risk assessments and an analysis of existing legislation.
6.90 Health Canada should regularly assess whether resources have been allocated to the identified risks for inspections and the review of incident reports and whether these risks have been adequately mitigated. **(6.88–6.89)**	Agreed. Health Canada will continue to assess whether resources have been allocated to identify risks by determining an appropriate risk-based inspection cycle and establishing appropriate baselines as described in the Department's response to Recommendation 6.39. In addition, the Department will evaluate incident reporting through the Sentinel system and establish performance standards consistent with other product lines by the 2011–12 fiscal year. Data from medical device incident reports, other post-market activities, and associated performance measures will be used to identify high-risk areas requiring risk mitigation activities. The Department will also endeavour to determine, to the extent possible, whether the identified risks have been mitigated.

Recommendation	Response
6.94 Health Canada should assess whether its communications to inform the public, industry, and health care professionals about risks associated with medical devices on the market are effectively reaching their target audiences and doing so in a timely manner. **(6.92–6.93)**	Agreed. Health Canada will undertake a systematic evaluation of the effectiveness of its risk communications for all product lines, including medical devices. The plan will identify current gaps and challenges with risk communication evaluation and will highlight short-term, medium-term, and long-term activities aimed at systematic evaluation of Health Canada's risk communication tools. This plan will be initiated in the 2011–12 fiscal year with an anticipated completion date of the 2013–14 fiscal year.
6.98 Health Canada should determine whether it needs to take additional steps to increase international cooperation for its post-market activities. If so, the Department should identify concrete actions to be taken, along with timelines and needed resources. **(6.95–6.97)**	Agreed. Over the next three years, Health Canada will identify gaps in international cooperation for post-market activities and the steps needed to increase international collaboration for post-market activities such as inspections, signal assessments, and communications. A three-year implementation work plan (2010–2013) will be developed.

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Matters of Special Importance—2011

Matters of Special Importance—2011



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Sheila Fraser, FCA
Auditor General of Canada

Since I issued my first Report to the House of Commons in 2001, our audits have taken my Office into a wide range of government programs and activities. I continue to be impressed by the professionalism, commitment, and resilience of public servants and by their efforts to ensure that Canadians are well served by their government. I believe that, in their public service, Canadians have a world-class institution that should be a source of pride.

My first Status Report to the House was tabled in September 2002. Our status reports tell parliamentarians what steps the government has taken to meet commitments made in response to our previous recommendations and whether, in our view, those steps represent satisfactory progress. In my view, there are numerous things that the federal government does well, particularly the ongoing activities on which many Canadians rely, including processing Canada Pension Plan, Old Age Security, and employment insurance benefits.

In an organization as large and complex as our federal government, however, it is not surprising that we have also found areas that need attention. Many of the issues we audit are complex, and making progress takes sustained effort over time. A rating of satisfactory does not necessarily mean that no further action is needed, but rather that the action taken so far is reasonable over the period since our previous audit.

I would like to use this Status Report—my last as Parliament's Auditor General—to reflect on some examples of progress and also to underscore two challenges that remain of particular concern to me as my term comes to a close.

Progress made

One of the most satisfying aspects of my work has been the opportunity to point to good practices and real progress in a number of government programs. Taken together, our reports have included many examples of efforts by federal departments and agencies to make changes that will be of lasting benefit to Canadians.

Actions taken toward improvement

Foundations—Organizations that received significant amounts of federal funding in advance to carry out public policy objectives.

Foundations. The accountability of foundations is an example of progress arrived at in the past decade. In 1999 and for a number of successive years, the Auditor General's observations on the government's financial statements expressed concerns about the way

foundations were funded, the way their funding was accounted for, and their inadequate accountability for billions of dollars transferred to them by the government.

Given the amount of money involved, I am very pleased that accountability to Parliament has been strengthened to the point where foundations now appear before parliamentary committees to discuss the management of their programs. The government has also strengthened its funding agreements with foundations to increase their accountability.

I was pleased when Parliament amended the *Auditor General Act*, in June 2005, to give my Office a mandate to audit foundations. Where we have conducted audits of foundations—for example, Canada Health Infoway and the Canada Millennium Scholarship Foundation—we have generally reported positive observations.

Passport Canada. Passport Canada had struggled in 2005 to meet service demands that were growing even as security requirements increased. In 2007, it faced a surge in applications for passports needed to fly to the United States, resulting in prolonged waits and delays for travelling Canadians. By 2009, we could report that Passport Canada had made satisfactory progress in addressing the problem and was preparing for any subsequent increase in passport applications leading up to June 2009, when Canadians would also need passports to enter the US by land or sea.

The Canadian Food Inspection Agency. I have also noted the considerable efforts that the Canadian Food Inspection Agency has made since the 2004 avian influenza outbreak to improve its readiness for animal disease emergencies. The Agency developed policies, plans, and procedures to manage such emergencies and adjusted its approach based on lessons learned. While every animal disease emergency brings specific challenges that cannot always be anticipated, the Agency's established procedures enabled it to manage the 2007 and 2009 avian influenza emergencies and minimize the costs of lost production and the threats to animal health.

Social insurance number (SIN). The management of the social insurance number is an area where we found limited progress in 2002. In 2007, we reported that, while Service Canada was heading in the right direction to improve data quality in the Social Insurance Register, overall progress was still unsatisfactory. I was pleased to note in our 2009 Report, Managing Identity Information, that Service Canada had taken significant steps to implement a system for measuring and

reporting on the quality of data in the Register. It also implemented a national quality control process to verify that new information being added to the Social Insurance Register at the time of a SIN application is complete, accurate, and valid.

I hope that these few examples, selected from our reports over the years, will serve to assure Canadians that government does indeed take action to improve. I would like to turn now to an area of government where this has been particularly evident—the government's financial management.

Significantly improved financial management practices

I am pleased that I was able to provide a clean opinion on the government's summary financial statements, the Public Accounts of Canada, for each of my 10 years as Auditor General. A clean opinion, that is, without qualification, tells users of the financial statements that they can trust the figures presented and that they depict fairly the financial position. I congratulate the government on this accomplishment—an unqualified audit opinion is achieved by few governments in other countries.

Another improvement I have noted during my term is the increased attention given by deputy heads to financial management. This may be due to the 2006 *Federal Accountability Act*, which designated deputy heads as the accounting officers of their departments. As such, they are accountable to the appropriate committee of Parliament to answer questions related to the management of their organizations.

Another significant development was the creation of departmental audit committees, which advise the deputy heads. As we recommended in 2004, these committees are required to include experts from outside government, who have diverse professional backgrounds. These include academics, former deputy ministers, or distinguished individuals from the private sector. Departments have attracted Canadians with impressive credentials to serve on their departmental audit committees, and deputy heads have told us that the committees provide valuable, objective advice on the management of their organizations.

As highlighted in Chapter 1 of this Status Report, another notable improvement in financial management is the recent requirement that departmental chief financial officers or their deputy chiefs have a recognized accounting designation. In 2003, when we first reported on the qualifications of senior financial officers, only 33 percent had

accounting designations; in 2010, we found that 82 percent of chief financial officers in the 22 largest departments had professional accounting designations. This has increased the capability for effective management of financial matters in those departments.

I am impressed by the progress shown in the short time since 2004 by internal audit, a key financial management tool discussed in Chapter 3 of this Status Report. We said in 2004 that the success of internal audit would depend on its professionalism and the value it added to the department. A capable internal audit function provides senior management with objective, independent assurance that its financial, administrative, and operational controls and its management practices are effective.

This year, I am pleased to report that there is greater appreciation of the role that internal audit can play; and, as a result, there is stronger senior management support for it across government. Departmental chief audit executives are now expected to have professional designations, and their audit staff are encouraged to seek their formal designations as certified internal auditors.

The maturity and professionalism of the internal audit community was highlighted in our first phase of auditing the Economic Action Plan (reported in fall 2010). In that audit, we were able to rely on the work of internal audits completed in three departments and to incorporate the audit findings and conclusions into our own audit work. This coordination of work done by internal and external auditors enhanced the support that audit was able to provide to government operations.

Remaining challenges

While progress in many areas has been noteworthy, the government faces some significant challenges. The following two, in particular, concern me:

- Long-term fiscal pressures facing Canadians
- Conditions on First Nations reserves

Fiscal pressures

Like governments in most countries, Canada's federal government faces long-term fiscal pressures, such as those arising from the debt and deficit situation and an aging population.

Under existing programs, an aging population will inevitably increase government spending on health care. Health care as a percentage of total program spending has risen in many jurisdictions. According to Statistics Canada, seniors aged 65 and older form the fastest-growing

segment of the population and will represent more than 25 percent of Canada's population in 2056.

As populations age, downward pressures will be brought to bear on labour force growth, economic growth, and tax revenues. The same people who will be needing more health care services, as they age, will also be drawing from the Canada Pension Plan, Old Age Security, and Guaranteed Income Supplement. Together, the growing cost of health care, increased retirement payments, and potentially lower tax revenues will present a major challenge.

As noted by the Commissioner of the Environment and Sustainable Development, another looming fiscal pressure facing Canada is the cost of managing the potential impacts of climate change. Extreme weather events are increasing in number and severity; other impacts include threats to human health from extreme heat and the spread of diseases, such as the West Nile virus. The most extreme impacts are already occurring in Canada's North where, for example, the thawing of permafrost is affecting the stability of roads, buildings, pipelines, and other infrastructure. Climate change will potentially have major impacts on key economic sectors as well, such as forestry, mining, fisheries, and agriculture.

Adapting to climate impacts will be important to limit losses or to take advantage of opportunities that may accompany changing climate conditions. A national long-term strategy and action plan are needed to plan for adaptation, estimate the costs, and engage Canadians in adjusting their activities and their thinking.

Several of our audits in the past decade have shown that the government will also face the challenge of replacing federal infrastructure—the Parliament buildings, bridges and ferries, mail handling facilities and equipment, research facilities and laboratory equipment, and the information technology systems that Canadians depend on for a variety of services and payments are but a few examples. Infrastructure replacement costs will add to the government's long-term fiscal pressures. The cost of not developing and funding a long-term replacement plan will be far higher.

I believe Canadians need sound, long-term fiscal information to understand the implications of policy choices, especially changes in spending, taxation, and debt levels. They need to know how these choices will affect the financial burden on present and future generations. Fiscal projections that look only a few years into the future will not give them what they need to meet the challenges ahead.

Nearly 30 countries and some Canadian provinces publish long-term fiscal projections, ranging from 25 to 100 years into the future. For example, for the last 20 years, the United States has produced fiscal projections that extend 75 years. In Canada, the Department of Finance Canada last published long-term projections 9 years ago as informal working papers, which are long since outdated.

I recognize the scale, complexity, and difficulty of managing these financial challenges. I encourage the government to publish the long-term financial projections needed to fully assess the impact of the challenges facing us and to inform Canadians and engage them in discussion about the difficult choices that need to be made. Success will require strong leadership and the ability to maintain focus and momentum over long periods of time. Resolving these long-standing challenges will take renewed vigour and clear plans and strategies. I encourage the government to engage Canadians in these decisions.

Conditions on First Nations reserves

Between 2001 and spring 2010, my reports included 16 chapters addressing First Nations and Inuit issues directly. Another 15 chapters dealt with issues of importance to Aboriginal people. I am profoundly disappointed to note in Chapter 4 of this Status Report that despite federal action in response to our recommendations over the years, a disproportionate number of First Nations people still lack the most basic services that other Canadians take for granted.

It is clear that living conditions are poorer on First Nations reserves than elsewhere in Canada. In 2010, Indian and Northern Affairs Canada (INAC) reported that the average well-being of those communities continued to rank significantly below that of other Canadian communities. For example, the high school graduation rate for residents of reserves is 41 percent, compared with 77 percent for Canadians as a whole; and INAC data shows that more than half of the drinking water systems on reserves still pose a health risk to people who use them. In a country as rich as Canada, this disparity is unacceptable.

On the surface, it may appear that the government simply needs to work harder to make existing programs work better. However, after 10 years in this job, it has become clear to me that if First Nations communities on reserves are going to see meaningful progress in their well-being, a fundamental change is needed.

In my view, many of the problems faced by First Nations communities on reserves are due to structural impediments that severely limit the delivery of public services and hinder improvements in well-being. In Chapter 4 of this Status Report, we identify and provide details on four such impediments: a lack of clarity about service levels to First Nations, the lack of a legislative base, the lack of an appropriate funding mechanism, and a lack of organizations to support local service delivery.

Real improvement will depend on the full participation of First Nations and the federal government; addressing the structural impediments will be a challenge for both parties. They will have to work together to address many obstacles. Unless they rise to this challenge, however, living conditions may continue to be poorer on First Nations reserves than elsewhere in Canada for generations to come.

Conclusion

I believe that Canadians have a strong and highly capable public service. In ten years of serving as Auditor General, I have observed many things it does well—an important factor in why most Canadians enjoy an enviable standard of living.

In terms of the future fiscal pressures we face as Canadians, I encourage the federal government to publish longer-term forecasts and to engage Canadians in discussions about choices that will have to be made.

I also encourage the government and First Nations to recognize the need for a changed approach to services on First Nations reserves and to work together to improve the well-being of those communities.

In closing, I thank my Office colleagues for their enthusiasm and commitment and their ability to deal with the many challenges we have faced together. I feel privileged to have worked with people who are so competent and so dedicated to serving Parliament and Canadians. I also acknowledge the excellent cooperation and assistance we received from the departments and agencies we audited, sometimes under trying circumstances. Finally, I want to express appreciation for the work of the committees of Parliament who reviewed our reports in committee hearings. With the continued combined efforts of these groups, I am confident that our democratic institutions will remain strong.

Main Points—Chapters 1 to 6



Financial Management and Control and Risk Management

Chapter 1 Main Points

What we examined

Financial control and risk management are central to managing any organization effectively. To the extent that they are done well, they can contribute to an organization's ability to safeguard its assets, use its resources economically and efficiently, and produce accurate and reliable financial information. Reliable information is key to developing a complete and accurate picture of financial performance.

In our April 2003 Report we observed that federal departments we had selected for audit were in the early stages of implementing integrated risk management and that much remained to be done. For example, departments needed to complete their analysis of risk, including assessing their tolerance for risk. We also noted that departments needed more guidance from the Treasury Board of Canada Secretariat on the steps involved in integrated risk management.

Our May 2006 Report noted that departments selected for that audit had made some progress in resolving financial control weaknesses and improving their financial management competencies. However, we noted that unless they also improved their financial controls, the quality of information used for many key decisions would be at risk. We also noted that most financial information used for budgeting and decision making was based on the cash method of accounting, which provided a less accurate and complete picture of a department's financial situation than the accrual method.

In this follow-up audit we examined government's progress in acting on commitments made in response to our previous concerns. Our audit included the Treasury Board of Canada Secretariat (the Secretariat) which includes the Office of the Comptroller General, and seven large federal departments, namely: Agriculture and Agri-Food Canada, Department of Finance Canada, Foreign Affairs and International Trade Canada, Human Resources and Skills Development Canada, Indian and Northern Affairs Canada, Transport Canada, and Veterans Affairs Canada.

Audit work for this chapter was substantially completed on 30 September 2010.

Why it's important

Canadians expect the government to be well managed and to be accountable for the safeguarding of public assets and the stewardship—efficient, effective, and economical use—of public funds. Effective financial controls and risk management are vital to reduce the risk that the government may not achieve these objectives.

What we found

- Overall, the Treasury Board of Canada Secretariat and departments have made satisfactory progress in acting on their previous commitments, in particular, with respect to developing policies, frameworks, and relevant guidance on internal controls, and implementing risk management measures. Departments have still not fully assessed their internal control systems to identify and address weaknesses; and, according to their action plans, this work will take years to complete. In addition, the Office of the Comptroller General (OCG) has yet to establish processes for monitoring the completion of these assessments or for assessing actions taken by departments to address significant internal control issues. There is also a long-standing issue that has not been sufficiently addressed—namely, accrual-based budgeting and appropriations.
- The Treasury Board of Canada Secretariat, through the Office of the Comptroller General, has demonstrated leadership by developing a new and strengthened financial management policy suite, clarifying roles and responsibilities, and supporting deputy heads in their role as accounting officers as set out in the *Financial Administration Act*. Most of the selected departments told us they found the Secretariat's initiatives and approach to be helpful. However, there is more work to be done to improve the Secretariat's monitoring of the implementation of these policies so that it can appropriately assess departments' performance in achieving the policy goals.
- Each of the selected departments has developed a corporate risk profile that summarizes an assessment of the department's key risks, with processes in place to update these profiles regularly. The integration of risk into planning, reporting, and decision making has improved.
- Financial human resource capacity has improved since our last report. The Office of the Comptroller General has put in place several measures to enhance capacity, including guidelines on the qualifications of chief financial officers, mandatory training courses for financial staff, promotion of professional accounting designations for mid-level financial officers and financial managers, staffing initiatives, and forums and exchanges on best practices.

Departments are working to maintain and strengthen their workforce by recruiting, training, and developing the appropriate number of financial officers and managers with the required skills, competencies, and experience. Departments are at various stages in the process of putting in place strategies to address the anticipated turnover of senior financial executives.

- The government has not completed its evaluation of accrual-based budgeting and accrual-based appropriations and has not yet decided if it intends to fully adopt either or both of these approaches. It has taken what it considers the needed action related to accrual-based budgeting. However, it is our view that these actions are not sufficient or appropriate to attain accrual-based budgeting at the departmental level. At this point no decision on whether to adopt accrual-based appropriations has been made.

The departments and the Secretariat have responded. The departments and the Secretariat agree with all of the recommendations. Their detailed responses follow the recommendations throughout the chapter.



Large Information Technology Projects

Chapter 2 Main Points

What we examined

Large information technology (IT) projects involve more than introducing new hardware and software and systems. These projects can introduce new processes and practices—new ways of doing business—that also need to be successfully implemented before organizations can take advantage of potential efficiencies and savings. When successful, these projects can change the way that departments carry out their work and improve services to Canadians. Because large IT projects are complex and costly, they usually involve long planning and development times and require significant investments (on average, over three years and more than $70 million).

In 2006, we looked at seven large IT projects and found that only two of them met all of our audit criteria for well-managed projects. We found that five of the seven projects had proceeded even though their business cases were incomplete or out of date or contained information that could not be supported. In addition, four of the projects were undertaken by departments that lacked the required skills and experience to manage them. Although by 2006 the Treasury Board of Canada Secretariat had established a framework of best practices for managing IT projects, many of the problems identified some nine years earlier had persisted. In 2006, we also found that limited progress had been made since our previous audit in 1997.

For this status report, we examined the progress made since 2006 by the four departments that had not met all of our criteria in 2006. We also selected a new project, approved by the Treasury Board since 2006, in order to assess the government's progress in the way it approves and manages large IT projects.

In our 2006 audit, we were denied access to information by the Secretariat, which prevented us from completing our review of its challenge role in support of oversight of large IT projects by Treasury Board ministers. In this audit, we were able to review information that demonstrated the role played by the Secretariat.

Audit work for this chapter was substantially completed on 29 October 2010.

Why it's important

The federal government relies on information technology systems to provide many programs and services to Canadians. Large IT projects are inherently complex, expensive, and risky. Since 2002, the federal government has approved funding of $7.5 billion for new business projects making significant use of information technology. In the four audits we performed since 1995, the projects audited have a history of cost overruns and delays, and of not delivering what had been planned originally.

What we found

- Overall, the government has made unsatisfactory progress on its commitments in response to our 2006 recommendations. Although some improvements have been made, progress has been unsatisfactory in the important areas of governance and project business cases. Only two of the five projects we looked at, the Temporary Resident Biometrics Project and Integrated Revenue Collections systems, met most of our criteria for well-managed projects.
- In order to increase the likelihood of success, departments have significantly reduced the scope of the projects and considerably extended their timelines. In the area of project governance, the Expenditure Management Information System and Global Case Management System have had important deliverables deferred without full analysis of the impacts and costs of not completing these projects. In three of the five projects examined, the project business cases did not identify measurable benefits or the benefits have not been measured. For example, the 2007 business case for the Secure Channel no longer quantifies the financial benefits.
- In three of the four projects we examined, departments adequately assessed their capacity to manage the projects and demonstrated that they were ready to accept the business transformation that came with them; in three of the four projects, departments have done an adequate job of managing projects risks.
- The Secretariat has met the commitments it made in response to our recommendations we addressed to it. Since 2007, it has completed a policy suite renewal, which has led to new policies, standards, and guidance that will directly impact information technology projects by the end of the five-year implementation period. The Secretariat has been actively challenging departments in their preparation of their IT project submissions; recently (September 2010) it also submitted its first semi-annual report to Treasury Board ministers summarizing the health of large IT projects across government. That report provided a snapshot of 12 ongoing projects with a total value of

$2.4 billion. However, it is too early to assess whether these measures will have a significant impact on the management of large IT projects by departments.

The organizations have responded. The organizations agree with all of the recommendations. Their detailed responses follow the recommendations throughout the report.



Internal Audit

Chapter 3 Main Points

What we examined

In November 2004, we reported considerable variation among six federal organizations in the extent to which their internal audit activity met the international standards for the professional practice of internal auditing issued by the Institute of Internal Auditors. We also reported the extent to which they complied with the Treasury Board Policy on Internal Audit. We found that the Treasury Board of Canada Secretariat had yet to establish and fund a strategy that would enable it to meet the requirements of the Policy and the expectations of the internal audit community. We made a number of recommendations aimed at improving the quality of internal audit across government.

Our 2004 report noted that, effective 1 June 2004, the government had re-established the Office of the Comptroller General to strengthen comptrollership and oversight across the federal government. The Comptroller General's key duties included setting or reviewing internal auditing standards and policies of the Government of Canada, providing leadership to ensure and enforce appropriate internal controls, and promoting sound resource stewardship at all levels across the federal government.

For this status report, we examined the extent of progress made by the government in acting upon the commitments it made in response to the observations and recommendations of our 2004 report. We looked at whether independent audit committees had been established in the 24 largest departments and agencies that represent about 95 percent of the government's total assets, liabilities, revenues, and expenses. We assessed the practices and procedures used by a sample of internal audit activities. We also looked at whether the Office of the Comptroller General provided appropriate oversight and guidance to the internal audit activity in departments.

Audit work for this chapter was substantially completed on 28 November 2010.

Why it's important

Internal audit is an important element of good governance. An effective internal audit activity can provide senior management with

objective, independent assurance that the organization's financial, administrative, and operational controls and management practices are effective. It can also suggest improvements that may be needed.

What we found

- The government has made satisfactory progress in acting upon the commitments it made in response to the observations and recommendations of our 2004 audit.
- Independent departmental audit committees have been established in the 24 large departments; the majority of their members are from outside the federal public administration and have the collective skills and experience required to provide deputy heads of departments with objective advice and recommendations. Departmental audit committees are at varying stages in developing their practices and procedures. Some committees have been in effect for three years and others less than one year. We noted that the Canada Revenue Agency established its audit committee in 1999. We have also noted the positive impact that established departmental audit committees are having in contributing to stronger internal audit in government.
- The government has strengthened its internal audit capacity since our last audit in 2004. While few internal audit activities in departments have undergone an external quality assessment review, our own review of a sample of internal audit activities found that they generally or partially conformed to policy requirements and to the standards of the Institute of Internal Auditors. Internal audit reports we reviewed met those standards and requirements. We noted that the strong senior management support for internal audit, coupled with the impact of departmental audit committees has been accompanied by a strengthened internal audit capacity. Senior management has indicated that it has a greater appreciation of the role that internal audit can and should play within an organization.
- The Office of the Comptroller General has provided direction and guidance to the internal audit and departmental audit committee communities through the establishment of a sound policy framework and related guidance. We noted, for example, orientation material that included roles, responsibilities, and expectations of audit committee members. The Office of the Comptroller General has also developed tools and guidance for the internal audit community, such as risk-based audit plans and guidance on core controls.

The entities have responded. The entities agree with our recommendation. Their detailed responses follow the recommendation in the chapter.



Programs for First Nations on Reserves

Chapter 4 Main Points

What we examined

The federal government supports numerous services to First Nations members on reserves that are similar to those provided by provincial and municipal governments to people off reserves. These services range from education and social development programs to land management and economic development, housing, provision of potable water, and provision of benefits to First Nations members under treaties and other agreements.

In several audits over the past decade, we have identified issues of particular importance to the lives and well-being of First Nations and Inuit. In this follow-up audit, we examined the government's progress toward achieving the commitments it made to address significant observations and recommendations from seven of those reports, issued between 2002 and 2008. We focused on the areas of education, water quality, housing, child and family services, land claim agreements, and reporting requirements.

Our audit included the roles that Indian and Northern Affairs Canada (INAC), Health Canada, the Canada Mortgage and Housing Corporation (CMHC), and the Treasury Board of Canada Secretariat play in the management of programs to improve the lives of First Nations and Inuit.

Audit work for this chapter was substantially completed on 1 November 2010.

Why it's important

According to the Report of the Royal Commission on Aboriginal Peoples (1996), Canada's First Nations reserves experience long-standing challenges such as ill health, insufficient and unsafe housing, high unemployment, polluted water supplies, inadequate education, poverty, and family breakdown. The federal government supports programs that can improve the lives of people who live on reserves. However, despite the billions of federal dollars spent each year on programs to address the social and economic challenges on First Nations reserves, conditions there remain significantly below the national average.

What we found

- Despite considerable efforts and concrete actions in some areas, federal organizations have not made satisfactory progress on commitments made in response to several recommendations from our previous audits. INAC has just begun implementing a strategy to close the education gap. The Department has not defined what is meant by its policy of providing child and family services that are reasonably comparable to what exists in the provinces. Nor has it developed and implemented a plan to communicate to other federal organizations what specific obligations they have under land claim agreements or monitored their results. INAC and Health Canada do not ensure that drinking water is tested on a regular basis. INAC, Health Canada, and the Canada Mortgage and Housing Corporation have developed a strategy for dealing with mould in housing, but it is not comprehensive as it focuses on education rather than remediation and provides no new funding.
- INAC has implemented commitments it made in response to some of our recommendations. For example, it has taken steps to monitor progress toward the objectives of comprehensive land claim agreements, and has put in place a system to track and monitor progress on all federal commitments contained in the agreements. Along with Health Canada, INAC has developed draft legislation related to drinking water on reserves. In addition, the Department recently agreed with several provinces and First Nations on frameworks to improve child and family services on reserves, but it will likely be several years before meaningful results are realized.
- Notwithstanding the considerable efforts made, conditions have generally not improved for First Nations in each of the areas subject to our audit. The education gap between First Nations living on reserves and the general Canadian population has widened, the shortage of adequate housing on reserves has increased, comparability of child and family services is not ensured, and the reporting requirements on First Nations remain burdensome.
- Broader concerns that we believe have inhibited progress include the lack of clarity about service levels on First Nations reserves, lack of a legislative base to fund service delivery on reserves, a lack of an appropriate funding mechanism, and a lack of organizations that could support local service delivery. There is a risk that living conditions on many First Nations reserves will remain significantly below national averages, with little prospect of a brighter future, until these concerns are addressed.

The Department has responded. The Department agrees with our recommendation. Its detailed response follows the recommendation.



National Police Services—Royal Canadian Mounted Police

Chapter 5 Main Points

What we examined

The Royal Canadian Mounted Police (RCMP) provides Canada's law enforcement community with specialized national police services such as forensic analyses of criminal evidence, criminal records information, identification services, technological support, learning opportunities, and the collection and analysis of criminal information and intelligence.

This follow-up audit assessed the progress that the federal government and the RCMP have made toward keeping commitments to improve certain national police services, including their timeliness, made in response to our audits in 2000, 2004, and 2007; those audits noted significant delays in the delivery of these services. We focused on four of the national police services: Forensic Laboratory Services, the National DNA Data Bank, Criminal Intelligence Service Canada, and Canadian Criminal Real Time Identification Services. The DNA Data Bank has not been the subject of a previous audit by this office.

We also followed up on previous audit observations concerning the governance of national police services as a whole and the approach to funding them.

Audit work for this chapter was substantially completed on 1 November 2010.

Why it's important

Jurisdictional limits on individual police forces, the division of investigative responsibility when crime crosses these jurisdictional lines, and constraints on funds and manpower limit the ability of any single police force to carry out complex investigations. Given the RCMP's federal and contractual policing responsibilities, provincial and municipal police forces often rely on the RCMP to provide highly specialized police support services. The aim of providing national police services is to enable and sustain uniform access to information that supports public safety and the administration of justice to all Canadians, particularly where such services may not be within the resources of individual jurisdictions.

What we found

- The federal government and the Royal Canadian Mounted Police have made unsatisfactory progress on commitments made in response to recommendations in our 2000, 2004, and 2007 reports regarding national police services. The RCMP is still providing national police services to other levels of government and law enforcement organizations without clarifying which services should be provided; how they should be funded; and how provincial, territorial, and municipal partners should be engaged within the national police services governance framework. In the absence of formal agreements, the accountability of the RCMP and other partners for the delivery of these services has not been clearly established, nor has how they are to be sustained over the long term.
- The RCMP has not determined the detailed transactional costs of providing each of its national police services. Accurate costing information is essential to efficiently manage services and resources. In addition, because of financial pressures, the RCMP is finding it difficult to deliver national police services and also fulfill its other obligations. In light of existing resource constraints, it is difficult without adequate cost information to negotiate agreements on which national police services will be provided and which are priorities.
- While changes in the approach to managing Forensic Laboratory Services have increased the RCMP's focus on clients' needs and reduced turnaround times, other services have not shown similar improvement. For example, backlogs and delays in updating criminal record information have significantly increased—from 5 months in 2000 to 14 months today. In addition, technological upgrades to critical systems requiring significant investments are facing challenges or have been delayed. At the same time, the demand for national police services is growing and straining the RCMP's ability to deliver in a timely way.

The RCMP and Public Safety Canada have responded. The RCMP and Public Safety Canada agree with all of the recommendations. Their detailed responses follow the recommendations throughout the chapter.



Regulating Medical Devices—Health Canada

Chapter 6 Main Points

What we examined

The term "medical devices" encompasses a wide range of medical, surgical, and dental products and instruments used to diagnose, treat, and prevent diseases and other physical ailments. They range from basic items, such as bandages, to complex devices such as pacemakers and diagnostic ultrasound systems.

As required under the *Food and Drugs Act*, Health Canada regulates the safety and effectiveness of all medical devices marketed in Canada. It does this through a combination of scientific review, monitoring, compliance, and enforcement activities, both before and after the devices reach the Canadian marketplace. The Department works toward ensuring that the public has timely access to safe and effective medical devices, and that those who need to know about related safety concerns are informed of them in a timely manner.

In March 2004 we reported concerns about the continued viability of the Medical Devices Program, given the increasing complexity and number of devices available in Canada and the resources allocated to the Program. We concluded that the Program was not sustainable with the resources it had. We made similar observations in our November 2006 Report.

In this audit, we examined Health Canada's progress in meeting commitments it made in response to selected recommendations from our previous reports. In particular, we examined the timeliness of the Department's review of applications to allow or deny medical devices to be sold in Canada. We also examined how it manages the risks related to medical devices already available on the Canadian market and how it meets its obligations for medical devices. In addition, we looked at international regulatory cooperation.

Audit work for this chapter was substantially completed on 29 October 2010.

Why it's important

Medical devices play an important role in all stages of the delivery of quality health care, from the most basic procedures, such as monitoring blood pressure and body temperature, to complex surgeries.

All are meant to improve the health and well-being of patients by helping to prevent, diagnose, and treat disease, to reduce pain and suffering, and to extend and save lives. Medical devices are increasing in number and complexity, due in part to medical and technological advances.

Close to 1.4 million different medical devices are currently on the Canadian market. Canadians rely on Health Canada for assurance that available medical devices are safe and effective. Users of medical devices also rely on Health Canada to promptly inform them of safety concerns related to medical devices that are in use.

What we found

- Overall, Health Canada has made unsatisfactory progress toward meeting commitments it made in response to recommendations in our 2004 and 2006 reports. Although it has accomplished much in some areas, the Department is not meeting its obligations under the Medical Devices Program, mostly at the pre-market stage. For example, more than 45 percent of the time it does not meet its service standards for timely review of medical device submissions, thus delaying Canadians' access to the health benefits of these devices. According to Health Canada, this problem is due to a funding shortfall caused in part by rapid growth in medical device technology and increasingly complex submissions.
- Health Canada does not know if it has allocated too much or not enough resources to post-market activities such as inspections and surveillance. The Department has not established what levels of activity are needed to protect the health and safety of Canadians. In addition, while the Department has identified risks associated with medical devices already available on the Canadian market, it has yet to determine whether the risks that the inspections and the review of incident reports are designed to address have been adequately mitigated.
- Health Canada recently developed strategies to increase cooperation at the pre-market stage with regulatory bodies in other countries. While we acknowledge the significant challenges involved, progress to date is unsatisfactory. The work has not taken advantage of foreign resources, information, and knowledge and has not yet improved regulatory performance.
- Health Canada has taken significant actions to meet some commitments made in response to other recommendations from previous reports. A major accomplishment was making the Medical Devices Program more sustainable than in previous years. The Department increased its funding to the Program and expects to

eliminate the remaining funding shortfall by implementing new user fees starting in the 2011–12 fiscal year. Another significant accomplishment has been establishing a national inspection program to assess compliance with the *Food and Drugs Act* and Regulations. The Department also increased its capacity to identify safety risks associated with medical devices on the market.

The Department has responded. The Department agrees with all of the recommendations. Its detailed responses follow the recommendations throughout the chapter.

Appendix

Appendix Report on the audit of the President of the Treasury Board's report, *Tabling of Crown Corporations' Reports in Parliament*

Tablings in Parliament for parent Crown corporations: Annual reports and summaries of corporate plans and budgets

Section 152 of the *Financial Administration Act* (the Act) requires the President of the Treasury Board to lay before each House of Parliament, no later than 31 December of each year, a report on the timing of the tabling, by appropriate ministers, of annual reports and summaries of corporate plans and of budgets of Crown corporations. The Act also requires the Auditor General of Canada to audit the accuracy of the report on the timing of tabling and to present the results in her annual report to the House of Commons.

The President of the Treasury Board's report on the timing of tabling is included in the *Annual Report to Parliament—Crown Corporations and Other Corporate Interests of Canada 2010*, which was tabled on 8 December 2010.

At the time that our October 2010 report was going to print, we were unable to include the results of the above-noted audit because the President of the Treasury Board's report had not yet been finalized. Our Auditor's report was subsequently appended to the President's report and is reproduced in this report to Parliament.

Auditors' Report

To the House of Commons:

As required by subsection 152(2) of the *Financial Administration Act*, I have audited, for the year ended 31 July 2010, the information contained in the report "*Tabling of Crown Corporations' Reports in Parliament*" included in the *Annual Report to Parliament—Crown Corporations and Other Corporate Interests of Canada 2010*. The information contained in the report is the responsibility of the President of the Treasury Board. My responsibility is to express an opinion on the information contained in the report based on my audit.

I conducted my audit in accordance with the standards for assurance engagements established by The Canadian Institute of Chartered Accountants. Those standards require that I plan and perform an audit to obtain reasonable assurance as to whether the information contained in the report is free of significant misstatement. My audit included examining, on a test basis, evidence supporting the dates and other disclosures provided in the report.

In my opinion, the information contained in the report "*Tabling of Crown Corporations' Reports in Parliament*" is accurate, in all significant respects, with the section "Deadlines for tabling in Parliament and results achieved" contained within the report.



Lucie Cardinal, CA
Principal
for the Auditor General of Canada

Ottawa, Canada
15 November 2010

Status Report of the Auditor General of Canada to the House of Commons—2011

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Office of the Auditor General of Canada

The 2011 Status Report of the Auditor General of Canada comprises a Message from the Auditor General of Canada, Main Points—Chapters 1 to 6, an appendix, and seven chapters. The main table of contents for the Report is found at the end of this publication.



The Report is available on our website at www.oag-bvg.gc.ca.

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Chapter

7

Special Examinations of Crown Corporations—2010

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About the Chapter 15



Special Examinations of Crown Corporations—2010

Special Examinations of Crown Corporations

7.1 This chapter presents the main points of special examination reports of Crown corporations that were issued to the corporations' boards of directors between 1 January 2010 and 31 December 2010 and that have subsequently been made public. The Office of the Auditor General transmitted these reports throughout the year and examined the respective systems and practices during different time periods.

Importance of Crown corporations

7.2 Crown corporations are distinct legal entities whose names, mandates, powers, and objectives are set out in either the constituent legislation for the parent Crown corporation or the articles of incorporation under the *Canada Business Corporations Act*.

7.3 Crown corporations have more autonomy than most other government entities, in part, because they have commercial objectives as well as public policy objectives. They account for a significant portion of government activity and operate in many sectors of the Canadian economy, including transportation, energy, agriculture and fisheries, financial services, culture, and government services.

7.4 As of 31 December 2010, 46 parent Crown corporations and 3 subsidiaries reported as parent Crown corporations. These Crown corporations employed over 91,000 people. More than 81 percent of these employees worked at four corporations: Canada Post Corporation, Canadian Broadcasting Corporation, Atomic Energy of Canada Limited, and VIA Rail Canada Inc. The vast majority of Crown corporations had fewer than 3,000 employees.

7.5 Crown corporations manage more than $350 billion in assets. Note that due to the unique nature of their operations, total asset holdings for the Bank of Canada, the Canada Pension Plan Investment Board, and the Public Sector Pension Investment Board have not been included in the Crown corporations' total assets. Crown corporations fund their operations in a variety of ways. Some corporations are required by their enabling legislation to be financially self-sustaining and thus receive no parliamentary appropriations. Some are funded

mainly through parliamentary appropriations. Others receive federal funding but also generate revenue. In the 2009–10 fiscal year, 26 corporations received just over $6.6 billion in appropriations; 82 percent of these appropriations went to 5 corporations: Canada Mortgage and Housing Corporation, Canadian Broadcasting Corporation, Atomic Energy of Canada Limited, Canadian Air Transport Security Authority, and VIA Rail Canada Inc.

7.6 New Crown corporations are created periodically. The Canadian Museum of Immigration at Pier 21 was the only Crown corporation created in 2010. The Government dissolved the Cape Breton Development Corporation and transferred its remaining assets and liabilities to the Enterprise Cape Breton Corporation.

7.7 A board of directors or a similar governing body oversees the management of each corporation and holds management responsible for the corporation's performance. The board of a parent Crown corporation is, in turn, accountable to Parliament through the responsible minister.

Role of the Office of the Auditor General

7.8 Under Part X of the *Financial Administration Act*, the Auditor General is appointed to conduct annual audits of the financial statements and periodic special examinations of Crown corporations, either on her own or jointly with a private sector audit firm, unless she waives the appointment.

Definition and objective of a special examination

7.9 A special examination is an important accountability mechanism for Crown corporations. The objective of a special examination is to provide an independent opinion on whether there is reasonable assurance that a Crown corporation has systems and practices in place to ensure that its

- assets are safeguarded and controlled;
- financial, human, and physical resources are managed economically and efficiently; and
- operations are carried out effectively.

7.10 Any major weakness in the key corporate systems and practices that could prevent a corporation from achieving these objectives is reported as a **significant deficiency**. When planning special examinations, we conduct a risk analysis to identify the systems and practices that we consider essential to providing the corporation with this assurance. We also establish criteria that we use to examine the corporation's systems and practices. These criteria are based on our

Significant deficiency—A major weakness in a Crown corporation's key systems and practices that could prevent it from having reasonable assurance that its assets are safeguarded and controlled, its resources are managed efficiently and economically, or its operations are carried out effectively.

experience with performance auditing and our knowledge of the subject matter. They are selected in consultation with the corporation.

7.11 The opinion we present in the special examination can take one of three forms. One conclusion is that there is reasonable assurance that there are no significant deficiencies in the systems and practices the corporation maintained to achieve the objectives noted above. The second is that there is one or more significant deficiencies. Lastly, in rare situations, we may find there is not reasonable assurance that a corporation's systems and practices achieve the objectives.

7.12 The frequency of a special examination, as determined by the *Financial Administration Act*, is at least once every 10 years. However, special examinations could be carried out more frequently, if required by the Governor in Council (the Cabinet acting in a legal capacity), the appropriate minister, the board of directors of the corporation, or the Auditor General.

7.13 As part of the accountability mechanism for Crown corporations, the Office reports on special examinations to the board of directors of a Crown corporation or any similar governing body. Furthermore, the Auditor General may bring information from the special examination to the attention of the appropriate minister, after consulting with the board of directors or any similar governing body. The Auditor General may also bring such information to Parliament's attention, after consulting with the appropriate minister and the board of directors, by preparing a document to be included in the corporation's annual report.

7.14 The *Financial Administration Act* requires that the board of directors submit all special examination reports to the appropriate minister and the President of the Treasury Board within 30 days of receiving them. The Act also requires that the board of directors make the reports available to the public within 60 days of receiving them.

Special examination results for 2010

7.15 Reports were issued for the following four Crown corporations between 1 January 2010 and 31 December 2010, and have been subsequently made public:

- Canada Deposit Insurance Corporation
- Freshwater Fish Marketing Corporation
- National Arts Centre Corporation
- Telefilm Canada

7.16 Of these four special examination reports, two identified no significant deficiencies. Two identified one or more significant deficiencies:

- The National Arts Centre Corporation had a significant deficiency in the Corporation's systems and practices for the maintenance of the centre.
- The Freshwater Fish Marketing Corporation had significant deficiencies in the Corporation's systems and practices related to governance, strategic planning, and risk management. It also had significant deficiencies in operational areas, including processes to establish prices paid to fishers in order to remain self-sufficient and meet its mandate, capital asset management and procurement, production efficiency, and human resources. Due to these significant deficiencies, we concluded that the Freshwater Fish Marketing Corporation did not have the reasonable assurance, as required by section 131 of the *Financial Administration Act*, that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively.

We chose to bring the results of the Freshwater Fish Marketing Corporation examination to the attention of the appropriate minister.

7.17 In addition to reporting on significant deficiencies, our special examinations highlight systems and practices that contribute to success, and they provide information and recommendations to boards of directors about other opportunities for improvement. For the four Crown corporations, our recommendations focused primarily on corporate governance, strategic planning, risk management, and performance measurement and reporting. Because of the small number of special examination reports that we issued during this period, it is difficult to identify overall trends.

7.18 As noted earlier, we transmitted these reports to the respective board of directors at different dates throughout the year and examined the respective systems and practices during different time periods. We have not performed any follow-up audit work regarding any of the matters raised in these reports.

7.19 The next section includes the main points from each of the four special examination reports and not the full reports. Full reports can be found on the respective corporation's website.

Main Points of Special Examinations—2010

Canada Deposit Insurance Corporation—Main Points

[We issued the full report to the board of directors on 4 March 2010. The examination work covered the period from February 2009 to July 2009. For the full report, please go to www.cdic.ca or contact the Corporation.]

What we examined

Canada Deposit Insurance Corporation (CDIC) is a federal Crown corporation with a mandate to insure savings deposited in a CDIC member institution against loss in the event that the institution fails. The Corporation is also to promote and otherwise contribute to the stability of the financial system in Canada. The Corporation reports to Parliament through the Minister of Finance.

CDIC was established in 1967 under the *Canada Deposit Insurance Corporation Act*. Its head office is located in Ottawa, and there is one office in Toronto. At 31 March 2009, the Corporation had 97 permanent employees.

We examined whether CDIC's systems and practices provide it with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. Our examination covered the systems and practices in place between February 2009 and June 2009, including those in the areas of corporate governance, strategic direction and risk management, intervention and risk assessment, and human resources.

Why it's important

The federal oversight and safety net system for deposit-taking institutions are essential to the stability of the Canadian financial system. The overwhelming majority of Canadians and Canadian businesses have deposits that are insured by CDIC, whose primary role is to protect these depositors—in the event of a member institution failure. Canadians expect CDIC to be able to fulfill this role.

What we found

We found no significant deficiencies in the Corporation's systems and practices. In the areas where we focused our examination, we noted a number of good systems and practices. Some examples are outlined below.

- CDIC has the key elements of a good governance framework and its governance practices are consistent with best-practice expectations for stewardship by boards of directors. In addition, its systems and practices for human resources management provide

the Corporation with the core competencies and skills it needs to meet its objectives.

- The Corporation identifies and monitors risk and reports on its risk assessment to the Board's Audit Committee each year. It also carries out ongoing risk assessment of its member institutions, which enables it to keep track of developments affecting them and the financial services sector in general. Since our previous special examination in 2004, it has improved its readiness to intervene in the affairs of a troubled member.
- CDIC has a sound strategic planning process. It could, though, improve its reporting on performance by including in its corporate scorecard not only the planned key initiatives and key performance indicators currently presented but also an indication of its progress toward meeting its stated intended outcomes.

The Corporation has responded. The Corporation agrees with our recommendation.

Freshwater Fish Marketing Corporation—Main Points

[We issued the full report to the board of directors on 15 December 2010. The examination work covered the period from January 2009 to March 2010. For the full report, please go to www.freshwaterfish.com or contact the Corporation.]

What we examined

The Freshwater Fish Marketing Corporation was established in 1969 to market and trade in Canadian freshwater fish and fish products and by-products. The Corporation reports to Parliament through the Minister of Fisheries and Oceans. It is required to be financially self-sustaining and operates without government funding, although the Government of Canada guarantees the Corporation's borrowing up to a legislative limit of $50 million.

The Corporation has 53 full-time employees in corporate functions such as marketing, finance, and human resources. It also has the equivalent of approximately 150 full-time employees working in production; while the number of employees can increase during peak production periods. The Corporation buys around 17 million kilograms of fish each year at more than 50 collection points on over 265 lakes; the fish are then processed at the Corporation's plant in Winnipeg. From 2006 to 2010, the Corporation's total annual sales were between $55 million and $64 million each year. Over seventy percent of these sales are to markets outside Canada.

We examined whether the Freshwater Fish Marketing Corporation's systems and practices provide it with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. We focused on the following areas: corporate governance; strategic planning and risk management, and prices paid to fishers; performance management; production efficiency; quality management; human resource management; capital asset management and procurement; marketing and sales planning; and inventory management. Our examination covered the systems and practices that were in place between January 2009 and March 2010.

Why it's important

The fish in Canada's many lakes and rivers are a very valuable resource that the Corporation promotes and brings to market around the world. Working with fishers through agreements with Alberta, Saskatchewan, Manitoba, Ontario, and the Northwest Territories, the Corporation has a mandate to purchase fish that are legally caught and sold, create an orderly market, promote freshwater fish in international markets, increase the size of the fish trade, and increase the profits earned by fishers.

The Corporation currently faces several critical challenges to its continued ability to be financially self-sustaining, including its rising debt levels, aging physical assets, the announced intent of Northwest Territories and Saskatchewan to withdraw from the agreement each signed with the federal government, and foreign currency fluctuations. These challenges will need to be well managed if the Corporation is to successfully fulfill its mandate and objectives.

What we found

Our examination found significant deficiencies in the Corporation's systems and practices related to governance, strategic planning and risk management; and in operational areas, including processes to establish prices paid to fishers in order to remain self sufficient and meet its mandate, capital asset management and procurement, production efficiency, and human resources. A significant deficiency is a major weakness that could prevent the Corporation from having reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. The deficiencies we found are explained below.

- While we understand that the Corporation has focused on keeping its plant open by addressing the most serious issues raised by regulators and others, it has not successfully addressed its key strategic challenges. The Corporation has not been able to obtain approval from the Government of Canada (the Corporation's shareholder) of a viable plan that would enable the Corporation to continue to operate as a financially self-sustaining entity and fulfill its mandate. The Corporation has significant shortcomings in its governance practices: The Board is not focused on high risk issues; the current Board profile does not reflect the specific skills and experience required; the Audit Committee is not in compliance with the *Financial Administration Act*; the Corporation does not have internal audits conducted as required by the Act; and potential conflicts of interest on the part of Board members are not well managed.
- In addition to lacking a corporate plan that would be approved by the government and would address the financial issues, the Corporation has not put in place a risk management process to provide reasonable assurance that it will achieve its strategic and operational objectives, manage its resources economically and efficiently, and protect its assets. The Corporation does not have a current strategic plan to overcome its critical challenges. The last strategic plan was approved by the Board of Directors in 2007; since then, much has changed in the Corporation's internal and external operating environment.

- The Corporation has not met its annually budgeted net income levels over the past five years and is struggling financially. It has significantly increased its debt levels in recent years to finance capital additions and meet working capital requirements, and is now approaching its approved borrowing limits. The Corporation's practices for setting prices paid to fishers have not provided for the forecasted amounts of capital reinvestment needed. Consequently the Corporation has not reinvested the necessary capital in its aging production facility to safeguard its assets. Without the reinvestment there is a significant risk that the Corporation will not be able to operate efficiently and continue to fulfill its mandate. In addition, the Corporation's systems and practices do not ensure that capital assets are procured in an economical and efficient manner. For example, there are insufficient contracting policies for large capital contracts and no established approach to ensure that all significant procurement risks are assessed and managed.
- In our 2005 Special Examination Report, we considered yield measurement practices to be a serious shortcoming. Five years later no substantive change has been made to adequately address this issue. Currently the Corporation does not have an effective method of monitoring yield and is not in a position to determine whether its operations meet reasonable efficiency targets in comparison to the industry. It also has not assessed its own performance over time.
- The Corporation does not have a human resource strategy for addressing its key challenges, including high levels of absenteeism and high employee turnover, which directly affect the day-to-day operations of the plant.

In our opinion, given the pervasiveness and significance of the deficiencies mentioned, and based on the criteria established for the examination, the Corporation does not have the reasonable assurance required under section 131 of the *Financial Administration Act* that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

We noted that the Corporation has appropriate practices in place in the area of quality management, marketing and inventory management.

The Corporation has responded. The Corporation agrees with our recommendations.

National Arts Centre Corporation—Main Points

[We issued the full report to the board of directors on 19 July 2010. The examination work covered the period from September 2008 to December 2009. For the full report, please go to www.nac-cna.ca or contact the Corporation.]

What we examined

The National Arts Centre Corporation was established in 1966 under the *National Arts Centre Act* and began operating the National Arts Centre in 1969. The Corporation's mandate is threefold: to operate and maintain the National Arts Centre, to develop the performing arts in the National Capital Region, and to assist the Canada Council for the Arts in the development of the performing arts elsewhere in the country.

The Corporation reports to Parliament through the Minister of Canadian Heritage and Official Languages. It is governed by a Board of Trustees and, at the time of our examination, employed 900 people including 61 full-time musicians. Approximately 60 percent of the workforce is made up of part-time employees. In the 2008–09 fiscal year, the National Arts Centre had revenues of $30.8 million from box office sales, restaurants, parking, hall rentals, and the National Arts Centre Foundation, and parliamentary appropriations of $39.8 million for operating and capital expenses. The Foundation is a separate legal entity established in 2000 as a registered charity to raise funds from individuals, foundations, and corporations to support the National Arts Centre's programs and other qualified donees whose objects are in line with the mandate of the Corporation.

We examined whether the National Arts Centre Corporation's systems and practices provide it with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. Since the National Arts Centre Foundation is a separate legal entity, it did not fall within the scope of our examination. The systems and practices we examined were those in effect from September 2008 to December 2009.

Why it's important

The National Arts Centre is the only bilingual, multi-disciplinary performing arts organization in North America, and is one of the largest in the world. Over its 40 year history, the Corporation has become one of Canada's leading centres for live performance, the creation of new works, and arts education. The Corporation has six artistic departments: English theatre, French theatre, dance, music, variety and community programming, and the Scene festivals.

The Corporation fosters the next generation of artists through children and youth programming on its stages and by taking music, dance, and theatre into the school system. It also hosts the annual Summer Music Institute, a music education program that attracts some of the most talented emerging artists from around the world. The Corporation also produces teaching materials and study guides that are distributed to schools across the country by mail and through its website.

What we found

Our examination found a significant deficiency in the Corporation's systems and practices for the maintenance of the Centre. A significant deficiency is a major weakness that could prevent the Corporation from having reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operation are carried out effectively.

- During our examination, the Corporation did not have effective maintenance management systems and practices to allow it to monitor the condition of the building and to ensure that necessary maintenance activities were carried out in a timely and efficient manner.

We found sound systems and practices in a number of areas, particularly in activities that are core to the Corporation's mandate. We also noted some areas that need improvement.

- The Corporation has defined its strategic direction, and it relies on strong artistic leadership within each discipline to implement it. The Chief Executive Officer (CEO) ensures that this leadership is in place by seeking out artistic directors who are among the best in their field. Artistic directors make programming decisions based on their artistic vision, the Corporation's mandate and strategic goals of fostering artistic excellence and education, and the needs of targeted audiences. The Corporation collects data through various sources to better understand its audiences and guide its promotional activities.

- The Corporation has in place the key elements of a good governance framework, enabling its Board of Trustees to effectively carry out its oversight and stewardship functions. The CEO is selected and appointed by the Board, and he is clearly accountable to the Board. Oversight by the Board and committees is focused on those areas that most impact the Corporation's performance. For example, in the past year, the Board regularly reviewed key corporate initiatives, such as the Corporation's financial restructuring in response to the downturn in the economy.

- The Corporation relies on a strong financial management framework to deliver its artistic programs while respecting the budgeted resources. Artistic directors work with administrative directors to manage financial risks and costs within each discipline. The disciplines play a key role in monitoring revenues and costs within their approved budget. Artistic directors and administrative directors are directly accountable to the CEO.
- The Corporation has established sound practices to manage the major rehabilitation project it initiated in 2006. The project management team actively monitors costs and scheduling and takes into account business continuity, health and safety, and financial risks to determine priorities. Despite the Corporation's sound project management practices, the major rehabilitation project is facing delays, changes in scope, and additional costs. These are largely due to unforeseen issues that could not be factored into the original planning for the major rehabilitation project.

The Corporation has responded. The Corporation agrees with the recommendations.

Telefilm Canada—Main Points

[We issued the full report to the board of directors on 10 June 2010. The examination work covered the period from May 2009 to January 2010. For the full report, please go to www.telefilm.gc.ca or contact the Corporation.]

What we examined

Telefilm Canada is a Crown corporation established in 1967 under the *Telefilm Canada Act*. Its mandate is to foster and promote the development of the Canadian audiovisual industry. It supports the industry through investments, advances, and grants. Its resources are used to finance feature films, as well as multimedia and multiplatform projects. Telefilm Canada provides full support for the creation, production, marketing, and distribution of audiovisual works, with special attention to building the industry capacity.

Telefilm Canada reports to Parliament through the Minister of Canadian Heritage and Official Languages. It is governed by a board of directors. The Corporation receives funding of approximately $109 million annually through a parliamentary appropriation. It provides financial and strategic support to the motion picture industry, and from this support stem investments from other financial sources. Telefilm also administers the programs of the Canada New Media Fund on behalf of the Department of Canadian Heritage, using an annual transfer payment of about $14 million provided by the Department for this purpose. It also administers a service agreement with the Canadian Television Fund valued in 2008–2009 at $287 million to fund television projects. Telefilm has about 200 employees.

In conducting this first special examination of Telefilm Canada, we looked at whether the Corporation has systems and practices in place that provide it with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. Our audit work covered the systems and practices that were in place between May 2009 and January 2010.

Why it's important

The Canadian audiovisual industry is culturally and economically important for Canada. Canadian film, television, and interactive digital productions have an approximate total value of $10 billion per year and provide work for some 178,600 people. Telefilm provides financial and strategic support for the creation and production of works and cultural products that reflect Canadian diversity, strengthen the Canadian identity, support Canada's international presence, and

thereby contribute to Canada's cultural and economic vitality. Canadian productions are sold in more than a hundred countries.

What we found

We did not identify any significant deficiencies in Telefilm Canada's systems and practices. We noted good management practices and also a number of areas that could be improved.

- The Corporation has sound governance practices. The Board of Directors has established a profile of the expertise and knowledge that its members should possess, and the roles and responsibilities of Board members are clearly defined. We noted that Telefilm has an appropriate strategic planning process that aligns the Corporation's programs and activities with its strategic objectives.
- Telefilm's management is aware of the major risks to which the Corporation is exposed. It carried out a review of current systems and implemented an action plan to make the necessary improvements. However, the Corporation could benefit from more highly integrated risk management, which would enable it to consolidate information about risks and to manage them more systematically and comprehensively.
- The Corporation has established policies and procedures for the administration of its programs that generally provide for consistent and objective project management. However, the Sineweb management information system could be used more efficiently in some areas, which would optimize its use and improve operational efficiency. Furthermore, although Telefilm already has several different quality monitoring mechanisms in its project management process, some planned mechanisms were not fully implemented for feature films.
- Telefilm does a good job of managing its human resources. It has succeeded in recruiting and retaining qualified people. However, the offer-of-employment letters that are used in place of employment contracts between employees and the Corporation do not always reflect current policies. Furthermore, the documentation of the performance evaluation process and the performance bonus management policy lacks consistency. Performance measurement ratings and the justification for bonuses paid were not always adequately documented.

The Corporation has responded. The Corporation accepts all the recommendations.

About the Chapter

Objective

The objective of this chapter was to bring to the attention of Parliament the results of the special examination reports that the Office of the Auditor General transmitted to the boards of directors of Crown corporations between 1 January 2010 and 31 December 2010 and that the Crown corporations have subsequently made public.

Scope and approach

The chapter includes the main points of four special examinations where the Auditor General was the examiner.

The approach to this chapter consisted of presenting information that was already public, providing information about what a special examination is, and providing the main points of the four special examinations.

Audit team

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